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HOW TO INCREASE SMALL BUSINESS PARTICIPATION IN EXPORT MARKETS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON EXPORT EXPANSION

OF THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

HOW TO INCREASE SMALL BUSINESS PARTICIPATION IN EXPORT MARKETS

APRIL 29, 1987
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HOW TO INCREASE SMALL BUSINESS PARTICIPATION IN EXPORT MARKETS

WEDNESDAY, APRIL 29, 1987

U.S. SENATE,
SUBCOMMITTEE ON EXPORT EXPANSION,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10 a.m., in room SR-428A, Russell Senate Office Building, Hon. James R. Sasser (Chairman of the Subcommittee) presiding.

STATEMENT OF HON. JAMES R. SASSER, A U.S. SENATOR FROM THE STATE OF TENNESSEE

Senator SASSER. This Subcommittee will come to order. I want to welcome our witnesses here this morning.

For the next 2 days, this Subcommittee will explore the role of small business in our export markets.

At the outset, let me just stress that I think this whole question of small business and its role in export markets is one aspect of our trade debate which has been overlooked. It is my strong belief that if we do not remedy this policy, we are simply over a period of time going to further aggravate our trade problems.

Make no mistake about it, export-led growth is essential if we are to make substantial reductions in our overwhelming trade deficits. This country can not continue to run the kind of trade deficits indefinitely that we have been running the past few years.

Not only would expansion in our export base reduce our trade deficit, but obviously we would be creating jobs here at home. The Commerce Department estimates that for every $1 billion in American exports abroad, this supports nearly 25,000 jobs here in our domestic economy.

Tragically, our export market is not now poised to add these much needed gains to our economy. The truth is that those who play on the export team are a very few select players indeed.

Only 10 percent of the companies in the United States presently export. Some 250 U.S. companies account for 80 percent of the dollar volume in U.S. exports. As we might expect, small business does not play a great role in our export market at all.

Indeed, between 1980 and 1982 small business experienced a decline of 15 percent in real exports. The National Commission on Jobs and Small Business reports that about 30,000 small businesses in America produce exportable goods and services, or goods and services that are prime candidates for export; but they export none of these goods and services at all.

The Commission goes on to suggest that this is the case because efforts to identify and serve these small business firms that are potential exporters are simply deficient. Indeed there are those that argue that obstacles to increasing small business exports run even deeper than this.

Many Federal agencies treat large-, small-, and medium-sized companies the same way. They make no effort to distinguish the unique needs of the small firms. Our own investigations leading up to this hearing found such problems with the office of the trade representative for example, and we will discuss that later on in the hearings.

Whenever we see this policy of treating all businesses alike, whether it is in the export field or in other fields, then invariably we see that small business suffers. The simple truth is that a policy of treating all businesses alike, whether it is the General Motors and the IBMs of the world, or the small mom and pop operation, this always benefits the larger firms at the expense of the smaller firm.

We need to begin correcting this view. We must move towards the clear goal for the U.S. Government, of expanding the small business share of our export markets. It is no secret that it has been the small business community which has led this Country in job creation and innovation.

Over the past 6 to 8 years when big business has been losing jobs, it has been small business that has been creating the lion's share of jobs in this economy. It only makes sense that we turn to this economic dynamo known as small business in efforts to redress our alarming trade deficit.

I would add that there is a growing awareness in the small business community on this precise point. An increasing number of small business seminars and gatherings are focusing on the whole question of export expansion for small business. We need only look at the 1986 White House Conference on Small Business to see the growing importance that is attached to trade issues by small firms.

Small business people from across the Country gathered here in Washington last summer to debate the most pressing issues facing small business. Out of these deliberations the delegates voted on 60 final recommendations. These recommendations I think provide us with a road map of small business concerns. Nine of the 60 recommendations dealt with international trade, either directly or indirectly.

Some of the recommendations set out specific steps that we can take to expand the role of small business in world markets.

We will be looking very closely at these recommendations over the next 2 days and over the weeks ahead. It is abundantly clear to me that we need to build on this base of support of small business getting into the export field.

We need to bring more small businesses into the world of export. The comprehensive trade legislation which is being considered in several committees in the Senate provides us with an opportunity to do just that. It is my intention to put together small business provisions for the important trade legislation that will be moving through the Senate later on this year, and which is being debated in the House of Representatives today. And we will draw on the product of this hearing as well as the efforts of our colleagues in the House of Representatives and also small business leaders who are interested in this whole effort.

I will close by saying that we can not afford to ignore the critical need to expand U.S. exports and the vital role that small business can play in expanding our export market.

Our future economic well being depends on correcting this imbalance and I look forward to hearing the input of our witnesses on this very critical issue.

[The prepared statement of Senators D'Amato and Wallop follow:]

STATEMENT BY SENATOR ALFONSE M. D'AMATO
BEFORE THE SMALL BUSINESS COMMITTEE
APRIL 29, 1987

MR. CHAIRMAN, I WANT TO WELCOME TO THE SMALL BUSINESS COMMITTEE THIS MORNING OUR DISTINGUISHED WITNESSES WHO WILL TESTIFY ON FEDERAL AND PRIVATE FUNDING FOR SMALL BUSINESS EXPORTS.

SMALL BUSINESSES CONSTITUTE A SUBSTANTIAL SHARE OF THE AMERICAN BUSINESS COMMUNITY. SMALL BUSINESS EMPLOYS 48% OF THE U.S. WORKFORCE, PRODUCES 38% OF OUR GNP, AND ACCOUNTS FOR MORE THAN 60% OF ALL NEW JOBS.

WE CAN NO LONGER AFFORD TO OVERLOOK THE VALUABLE CONTRIBUTIONS SMALL COMPANIES POTENTIALLY COULD PROVIDE TO THE EXPORT COMMUNITY AND OUR BALANCE OF TRADE. DUE TO THEIR SMALL SCALE, HOWEVER, SMALL BUSINESSES MAY NEED ADDITIONAL GUIDANCE. BARRIERS TO SMALL BUSINESSES THAT WANT TO EXPORT MUST BE BROKEN DOWN IF SMALL BUSINESSES ARE TO CONTRIBUTE TO THE INTERNATIONAL COMPETITIVENESS OF OUR ECONOMY. MAKING IT REALISTIC FOR SMALLER COMPANIES TO ENTER INTO THE EXPORT FIELD WILL PROVIDE NEW MARKETS FOR U.S. MANUFACTURES AND SERVICES.

IN THE FACE OF A U.S. TRADE DEFICIT EXCEEDING $180 BILLION, IMPROVING THE INTERNATIONAL COMPETITIVENESS OF THE UNITED STATES IS AN ESSENTIAL GOAL OF BOTH THE PRESIDENT AND THE CONGRESS. ENCOURAGING AND ASSISTING SMALL BUSINESSES ENTERING THE INTERNATIONAL TRADE ARENA IS AN INITIAL STEP TOWARD IMPROVING OUR OVERALL COMPETITIVENESS AND REDUCING THE TRADE DEFICIT.

I BELIEVE THAT THE SMALL BUSINESS ADMINISTRATION CAN AND SHOULD DO A GREAT DEAL IN A CONCRETE WAY TO ENCOURAGE SMALL BUSINESSES TO EXPORT. THE EXPERTISE AND ASSISTANCE THE SBA CAN OFFER IS AN INVALUABLE RESOURCE FOR SMALL BUSINESS.

AS MY COLLEAGUES ARE AWARE, THE HOUSE SMALL BUSINESS COMMITTEE RECENTLY COMPLETED HEARINGS ON THIS VERY TOPIC. THE HEARINGS WERE QUITE PRODUCTIVE IN AIRING THE VARIOUS IDEAS SURROUNDING SMALL BUSINESS INVOLVEMENT IN EXPORTING.

I LOOK FORWARD TO THE SUGGESTIONS AND COMMENTS OF TODAY'S WITNESSES AND THE GUIDANCE THEY ARE SURE TO PROVIDE TO THIS COMMITTEE IN ITS FORMULATION OF THIS IMPORTANT LEGISLATION.

THANK YOU, MR. CHAIRMAN.

STATEMENT OF SENATOR MALCOLM WALLOP
SMALL BUSINESS EXPORT PROMOTION SUBCOMMITTEE
HEARINGS ON INCREASING SMALL BUSINESS PARTICIPATION
IN EXPORT MARKETS
APRIL 29-30, 1987

I'm pleased to see the export subcommittee holding hearings on the role of small businesses in international trade.

Some of my colleagues here may be aware that last February, I traveled to the Far East -- Japan, Taiwan, and South Korea -- to urge those countries to grant increased market access to a relatively large industry, Wyoming soda ash. Soda ash, for the uninitiated, is a major ingredient in glass, soap, and other products. While my major objective was to try to expand our soda ash market in the Far East, I also took the opportunity to promote a variety of other Wyoming products -- from both large and small businesses. The idea was that better access for one product could easily pave the way for others. In fact, some 2500 Wyoming merchants -- the majority of which were small businesses -- signed a letter to the Japanese government supporting my efforts. Clearly, small enterprises want to see a fair trade practices and open export markets.

This hearing comes at a time when we are reaching a particularly critical crossroads in the foreign trade area. Just as many small businesses are interested in getting into exporting, Congress is considering protectionist trade measures that will only serve to hurt the export efforts of large industries and small enterprises alike. I have reservations about both the House and Senate trade bills which provide little more than that tired federal "panacea" of correcting a problem by throwing money at it. Moreover, the trade legislation before us offers our trading partners a bigger "stick" than "carrot". I'm afraid Congress's approach will force other nations to enact retaliatory measures similar to those in the trade legislation thereby negating any other efforts made to promote small business export expansion.

As a long time advocate of fair trade, I feel there is a better approach. First, Congress ought to work toward obtaining fair and equitable access to foreign markets, not only to improve our overall competitiveness, but to provide greater opportunities for small businesses as well. Second, I believe that the private sector needs to accept the challenge of developing successful strategies for increasing small business exporting. Fair trading practices coupled with private sector initiatives will result in more opportunities for small businesses to sell their products abroad.

Senator SASSER. We will begin this morning with our first panel, which includes the Honorable James Abdnor, the Administrator of the Small Business Administration here in Washington, a former distinguished colleague of ours in the U.S. Senate, and Mr. Bruce Smart, the Undersecretary for Internatonal Trade at the Department of Commerce here in Washington.

Mr. Administrator, I want to welcome you here this morning and also welcome Secretary Smart. We look forward to hearing your views and observations and we will begin with you, Mr. Administrator.

STATEMENT OF HON. JAMES ABDNOR, ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION

Mr. ABDNOR. Thank you Mr. Chairman. I want to thank you for this opportunity to present my views to you.

I have a written statement that is rather lengthy and I know how members of the Senate like these long statements so I would like to make a request that it be made a part of the permanent record and I will just summarize my written statement.

First let me say Mr. Chairman, through my years of association with you, you did exactly today what you did then, summarized things up very well and put the problem in its proper perspective. I just want you to know that I really believe that by all of us working together we can come up with some answers on how to increase export trade by small business. I thought everything you said was very well stated. It is a problem we probably should have been looking at sooner, although we have been working on it in the past. I do not want to leave you with the thought that we have been necessarily neglectful.

It is one of the many, many areas that we deal in. It is one we need to establish an even higher priority for.

I just want to commend you again and the whole Small Business Committee for your great interest in this problem. You are making an important contribution toward improving small business access to overseas markets by focusing needed attention on the significant obstacles faced by small firms trying to compete in the international arena.

As the Administrator of SBA, I am firmly committed to doing everything within my power to ensure that the small businesses of America have ready access to international markets. It is in the interest of small business and, more importantly, it is in the national interest to see a strong, healthy export economy flourish.

Since becoming Administrator, I have taken several steps that will significantly strengthen our trade program. However, before I discuss them, let me review for just one moment the things that SBA has been doing.

Since there are a number of public and private sector organizations involved in international trade, our major focus is to cooperate, particularly with the Department of Commerce and the other organizations at the federal, state and local level to identify the export needs of small business and work with them to develop a good working relationship.

The updated Memorandum of Understanding signed by SBA and the Department of Commerce on March 19 provides a framework by which this will be accomplished. Currently SBA provides export assistance in three areas. First, we provide export counseling that will enable small businesses to identify markets and establish and conduct an export operation.

An example of our cooperative agreement with public and private sector organizations is our agreement with the Federal Bar Association under which a small firm can receive an initial free consultation with an attorney to discuss legal issues and concerns relating to international trade.

Second, we sponsor with other organizations export training programs that emphasize the practical application of successful exporting procedures.

Third, the SBA has financing programs for small exporters to enable them to obtain funds for fixed asset acquisition and other working capital purposes.

We also guarantee short term revolving lines of credit for export related purposes.

Recognizing the importance of international trade within days of arriving at the SBA, I began to review our existing trade programs and sought ways to make improvements. While that review is continually on going, I can report that several immediate actions have been taken that will significantly strengthen our trade program. It is based on what I see as three broad areas of needed improvement.

First, increased attention by management. In the central office we are going to be putting more and more attention on it.

Two, increased outreach by SBA and our resource partners. You know I stressed from the day I was here for confirmation that teamwork and working together is the only way to overcome problems. I couldn't believe that any more than right here in the case of trade. There are a lot of groups working on trade. If we work together we can really accomplish something. I look forward to working with Secretary Smart in the Commerce Department, because that is one of the big areas where trade is carried out.

Lastly we need better coordination with other sources of assistance, such as the Department of Commerce, state agencies and the private sector. We are all concerned with trade development.

In my written statement I outlined for you initiatives I have taken thus far based on my review. However, they are by no means the end but merely the beginning of our efforts to make our trade program the very best it can be.

A key feature of these preliminary initiatives is the establishment of a permanent management board trade task force to help me review and evaluate our program.

One of their first concerns will be to scrutinize existing agency programs to see how we might reallocate resources to more effectively emphasize our trade program while not reducing the effectiveness of other important programs that exist to serve our small business community.

What we are saying is that while we want to do everything we can in trade, we do not want to jeopardize the other areas. I intend to work closely with the task force to develop a cost effective program that addresses the real needs of small exporters.

Mr. Chairman, you also requested that I provide you with my thoughts on the Small Business Committee trade proposal. My primary objections, and I do have a few to H.R. 1854, the legislation over in the House, fall into three areas.

First it increases SBA funding by $5 million and limits that to use by SBDCs. We do not support increased funding necessarily because of the serious Federal deficit. If money is appropriated, however, that's another thing. We are not discouraging it, but I know what you are dealing with in addressing the Federal defecit.

But if you do see fit to provide additional funding for trade, it should not be allocated to only one of the resources in our trade program. We are going to work as a team, not just put everything into one resource. The legislation is duplicative of existing programs in SBA and other agencies. It adds a new and unnecessary loan program; it duplicates existing ones.

Mr. Chairman, it was little more than 1 month ago that the Senate confirmed me as the Administrator of SBA, and I pledged to you and the Committee at that time that I am going to do my best to make the SBA a responsive and effective advocate of American small business. We just can not do that if my flexibility to manage our limited resources is reduced because we do have limited resources. The legislation puts limitations and restrictions on us and that is bad. That is exactly what we think that H.R. 1854 does.

Therefore, while we are committed to improving our trade assistance efforts and I mean this, I could not mean it more meaningfully, we find it difficult to support this piece of legislation in its present form. But let me again say that I want to work with you and I am sure we can work out our differences and come up with a good workable step toward making international trade for small business more successful than it has been in the past.

Thank you very much.

[The prepared statement of Mr. Abdnor follows:]

SBA U.S. Small Business Administration Washington, DC 20416

STATEMENT OF

JAMES ABDNOR
ADMINISTRATOR

U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

SUBCOMMITTEE ON EXPORT EXPANSION
COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

APRIL 29, 1987

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

THIS IS MY FIRST APPEARANCE BEFORE THIS SUBCOMMITTEE, AND IT IS APPROPRIATE THAT IT BE ON AN ISSUE AS IMPORTANT AS THE ENHANCEMENT OF SMALL BUSINESS PARTICIPATION IN EXPORT MARKETS.

INCREASED EXPORTS ARE AN IMPORTANT PART OF THE SOLUTION TO OUR TRADE DEFICIT, ALBEIT NOT THE ONLY ONE. I APPLAUD THE EFFORTS OF THIS COMMITTEE TO HELP FIND WAYS OF INCREASING SMALL BUSINESS PARTICIPATION IN EXPORT MARKETS.

AS SBA ADMINISTRATOR, I AM COMMITTED TO EXPANDING THE AGENCY'S OUTREACH AND ASSISTANCE PROGRAMS TO THE SMALL BUSINESS COMMUNITY. SMALL BUSINESSES HAVE NOT RECOGNIZED THE OPPORTUNITIES THAT EXPORTING OFFERS TO THEM. SBA, IN COOPERATION WITH THE COMMERCE DEPARTMENT, STATE AGENCIES, THE PRIVATE SECTOR, AND OUR RESOURCE PARTNERS, WILL BECOME A FULL AND ACTIVE PARTNER IN EFFORTS AT THE FEDERAL, STATE AND LOCAL LEVELS TO INCREASE SMALL BUSINESS EXPORTS.

I HAVE GIVEN THIS ISSUE CONSIDERABLE ATTENTION SINCE ARRIVING AT THE SBA ON MARCH 23RD. WE BELIEVE THAT THE FUNDAMENTAL QUESTIONS THAT THE CONGRESS, THE EXECUTIVE BRANCH, AND OTHERS IN THE PUBLIC AND PRIVATE SECTOR ARE STRUGGLING WITH ARE: (1) WHAT ARE THE NEEDS OF THE SMALL BUSINESS EXPORTER; and (2) WHAT MIGHT BE DONE THROUGH A COST-EFFECTIVE, PUBLIC-PRIVATE SECTOR PARTNERSHIP, THAT CAN INCREASE THE COMPETITIVENESS OF SMALL BUSINESS IN THE INTERNATIONAL MARKETPLACE?

WE WISH THAT WE HAD THE TOTAL ANSWER .... BUT WE DON'T.

IT WOULD BE EASY AT THIS POINT TO SAY THAT MORE MONEY OR MORE PERSONNEL WOULD REAP LARGE DIVIDENDS BUT WE DO NOT BELIEVE THIS IS THE CASE. THE CURRENT FEDERAL DEFICIT REQUIRES US TO EXERCISE FISCAL RESTRAINT AND TO CHOOSE OUR PRIORITIES CAREFULLY. CONTINUING LARGE DEFICIT HARMS BUSINESSES. WE MUST FIND WAYS OF PROVIDING SERVICES THAT DO NOT INCREASE OUR COSTS, INCLUDING USER FEES AND GREATER LEVERAGING OF RESOURCES.

THE HOUSE SMALL BUSINESS COMMITTEE HAS REPORTED OUT H.R. 1854, THE SMALL BUSINESS TRADE COMPETITIVENESS AND INNOVATION ACT. BECAUSE THIS BILL DUPLICATES EXISTING ACTIVITIES OF OTHER FEDERAL AGENCIES AND UNNECESSARY RESTRICTS MY ADMINISTRATIVE DISCRETION, I CANNOT SUPPORT IT WITHOUT CHANGES.

WE BELIEVE THAT IF SBA IS GOING TO HAVE A MEANINGFUL IMPACT IN THE INTERNATIONAL TRADE AREA, IT WILL BE IN THE AREA OF INFORMATION DISSEMINATION AND EDUCATION SUPPORT THROUGH OUTREACH PROGRAMS TO THE SMALL BUSINESS COMMUNITY.

AFTER FOUR WEEKS ON THE JOB, I HAVE FORMULATED INITIAL PLANS FOR INCREASING SBA'S EFFECTIVENESS IN PROVIDING ASSISTANCE TO SMALL EXPORTERS.

BUT FIRST LET ME TELL YOU A LITTLE OF WHAT SBA HAS BEEN DOING IN THE INTERNATIONAL TRADE ARENA AS REQUIRED BY P.L. 96-481, COMMONLY REFERRED TO AS THE "SMALL BUSINESS EXPORT EXPANSION ACT OF 1980." THE ACT DIRECTED THE AGENCY TO PROMOTE SALES OPPORTUNITIES FOR SMALL BUSINESS GOODS AND SERVICES ABROAD BY:

1. PROVIDING SMALL BUSINESSES WITH ACCESS TO CURRENT AND COMPLETE INFORMATION ON EXPORTING;

2. ENCOURAGING GREATER SMALL BUSINESS PARTICIPATION IN TRADE FAIRS, SHOWS, MISSIONS, AND OTHER DOMESTIC AND OVERSEAS EXPORT DEVELOPMENT ACTIVITIES OF THE DEPARTMENT OF COMMERCE; AND

3. FACILITATING DECENTRALIZED DELIVERY OF EXPORT INFORMATION AND ASSISTANCE TO SMALL BUSINESSES.

THERE ARE MANY ORGANIZATIONS WITHIN THE PUBLIC AND PRIVATE SECTOR THAT ARE INVOLVED IN INTERNATIONAL TRADE. FOR THIS REASON, OUR MAJOR FOCUS IN INTERNATIONAL TRADE IS TO COOPERATE WITH OTHER ORGANIZATIONS AT THE FEDERAL, STATE AND LOCAL LEVEL TO IDENTIFY THE EXPORT NEEDS OF SMALL BUSINESS, AND WORK WITH THEM TO DEVELOP A PROACTIVE PROGRAM THAT RESPONDS TO THESE NEEDS.

ON MARCH 19 THE SMALL BUSINESS ADMINISTRATION AND THE DEPARTMENT OF COMMERCE UPDATED OUR MEMORANDUM OF UNDERSTANDING (MOU) TO ENCOURAGE GREATER COOPERATION AND JOINT PLANNING AT ALL LEVELS AND THEREBY BETTER SERVE THE SMALL BUSINESS COMMUNITY. THIS MOU ALSO CALLS FOR CROSS TRAINING OF PERSONNEL AND CROSS REFERRAL OF CLIENTS.

EXPORT COUNSELING

BASIC COUNSELING CONCERNING HOW TO IDENTIFY MARKETS AND ESTABLISH AND CONDUCT EXPORT OPERATIONS IS OFFERED BY BUSINESS EXECUTIVES EXPERIENCED IN INTERNATIONAL TRADE WHO HAVE RETIRED FROM OR WHO ARE STILL ENGAGED IN INTERNATIONAL TRADE.

IN AN EFFORT TO MAKE SCORE/ACE COUNSELING MORE ACCESSIBLE TO SMALL BUSINESSES, COUNSELORS OPERATE NOT ONLY OUT OF OUR DISTRICT AND BRANCH OFFICES BUT ALSO THROUGH SOME INTERNATIONAL TRADE ADMINISTRATION U.S. COMMERCIAL SERVICE DISTRICT OFFICES, AS WELL AS CHAMBERS OF COMMERCE.

MORE INDEPTH MARKET RESEARCH AND ASSISTANCE IS AVAILABLE THROUGH THE SMALL BUSINESS INSTITUTE'S UNIVERSITY-BASED PROGRAM. INTERNATIONAL TRADE COUNSELING IS ALSO AVAILABLE THROUGH SOME SMALL BUSINESS DEVELOPMENT CENTERS (SBDCs). THESE SBDCs HAVE DETERMINED THAT LOCAL NEED FOR TRADE ASSISTANCE IS A SUFFICIENT PRIORITY FOR THEM TO INITIATE THESE ACTIVITIES WITHOUT SPECIAL FUNDING.

IN ADDITION TO PERFORMING MARKET RESEARCH AND PROVIDING COUNSELING AND TRAINING FOR LOCAL SMALL BUSINESSES, SOME SBDCs PUBLISH INTERNATIONAL TRADE NEWSLETTERS AND ORGANIZE LOCAL

SMALL BUSINESS PARTICIPATION IN OVERSEAS EXPORT PROMOTION EVENTS. THEY ALSO WORK WITH THEIR STATE DEPARTMENTS OF COMMERCE AND ECONOMIC DEVELOPMENT TO ENCOURAGE FOREIGN INVESTMENT IN THEIR STATES.

UNDER AN AGREEMENT BETWEEN THE SMALL BUSINESS ADMINISTRATION AND THE FEDERAL BAR ASSOCIATION (FBA), A SMALL FIRM CAN RECEIVE AN INITIAL, FREE CONSULTATION WITH AN ATTORNEY TO DISCUSS LEGAL ISSUES AND CONCERNS RELATING TO INTERNATIONAL TRADE. A LOCAL FBA/SBA COORDINATOR HAS BEEN APPOINTED IN A NUMBER OF MAJOR CITIES ACROSS THE COUNTRY.

IN ADDITION, THE FBA HAS PROVIDED TO SBA, FOR DISTRIBUTION, A HANDBOOK ENTITLED, "LEGAL ASPECTS OF EXPORTING: AN INTRODUCTION", WHICH DISCUSSES VARIOUS LEGAL ISSUES INVOLVED IN INTERNATIONAL TRADE.

THE AGENCY ALSO MAKES AVAILABLE TO SMALL BUSINESSES, BASIC INTERNATIONAL TRADE DATA THROUGH THE EXPORT INFORMATION SYSTEM (XIS). AVAILABLE FOR OVER 2700 STANDARD INTERNATIONAL TRADE CLASSIFICATIONS (SITC) PRODUCT CATEGORIES, THE XIS REPORTS PROVIDE A LIST OF THE 25 LARGEST IMPORTING MARKETS FOR THE SMALL BUSINESS OWNER'S PRODUCT, THE 10 BEST MARKETS FOR U.S. EXPORTERS OF THAT PRODUCT, THE TRENDS WITHIN THOSE MARKETS AND THE MAJOR SOURCES OF FOREIGN COMPETITION. DATA REPORTS ALSO IDENTIFY THE MAJOR PRODUCTS BEING IMPORTED BY SELECTED

COUNTRIES. (DATA REPORTS ARE BASED ON UNITED NATIONS DATA.) THIS INFORMATION HELPS A BUSINESS TO DECIDE WHETHER OR NOT TO EXPORT AND, IF SO, WHICH MARKETS TO RESEARCH FURTHER, USING DOC MARKET INFORMATION AS WELL AS OTHER MORE SPECIFIC MARKETING SERVICES.

EXPORT TRAINING

DISTRICT OFFICES OF THE SMALL BUSINESS ADMINSTRATION COSPONSOR EXPORT TRAINING SEMINARS AND WORKSHOPS WITH THE U.S. DEPARTMENT OF COMMERCE AND OTHER ORGANIZATIONS INTERESTED IN INTERNATIONAL TRADE. THESE TRAINING PROGRAMS EMPHASIZE THE PRACTICAL APPLICATION OF SUCCESSFUL EXPORTING PROCEDURES TO SMALL BUSINESS.

TRAINING PROGRAMS ARE ALSO CONDUCTED BY SCORE/ACE VOLUNTEERS, SMALL BUSINESS DEVELOPMENT CENTERS, OTHER UNIVERSITIES AND JUNIOR COLLEGES, AS WELL AS PRIVATE SECTOR GROUPS.

WE ARE COSPONSORING WITH THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (AID) A SERIES OF FOUR ONE-DAY "OPPORTUNITIES FOR INTERNATIONAL BUSINESS CONFERENCES." THESE PROGRAMS ARE DESIGNED TO INCREASE THE OPPORTUNITY FOR SMALL BUSINESSES TO PARTICIPATE IN AID PROGRAMS.

EXPORT FINANCING

EXPORTERS MAY OBTAIN FUNDS FOR FIXED ASSET ACQUISITION NECESSARY FOR BUSINESS START-UP OR EXPANSION AND FOR OTHER GENERAL WORKING CAPITAL PURPOSES THROUGH SBA's REGULAR 7(a) BUSINESS LOAN GUARANTEE PROGRAM. THEY MAY ALSO OBTAIN FUNDS FOR FIXED ASSET FINANCING THROUGH THE CERTIFIED DEVELOPMENT COMPANY PROGRAM. LOAN GUARANTEES FOR FIXED ASSSET ACQUISITION HAVE A MAXIMUM MATURITY OF 25 YEARS. GUARANTEES FOR WORKING CAPITAL LOANS ARE USUALLY LIMITED TO A MAXIMUM MATURITY OF 7 YEARS.

IN ORDER TO HELP MORE SMALL BUSINESSES EXPORT THEIR PRODUCTS AND SERVICES ABROAD, THE CONGRESS AND SBA ESTABLISHED THE EXPORT REVOLVING LINE OF CREDIT LOAN GUARANTY PROGRAM (ERLC) SPECIFICALLY FOR ELIGIBLE SMALL BUSINESS EXPORTERS.

UNDER THIS PROGRAM, SBA CAN GUARANTEE UP TO 90% OR $500,000 OF A SHORT-TERM BANK LINE OF CREDIT FOR WORKING CAPITAL PURPOSES. LOAN PROCEEDS MAY ONLY BE USED TO FINANCE LABOR AND MATERIALS FOR PRE-EXPORT PRODUCTION AND TO PENETRATE OR DEVELOP FOREIGN MARKETS. THE SPECIFIC MATURITY OF AN ERLC LOAN IS BASED ON A BORROWER'S BUSINESS CYCLE BUT CURRENTLY CANNOT BY LAW EXCEED 18 MONTHS. DURING THE TERM OF THE LOAN, ANY NUMBER OF WITHDRAWALS AND REPAYMENTS CAN BE MADE AS LONG AS THE DOLLAR LIMIT OF THE LINE IS NOT EXCEEDED.

SINCE THE EXPORT REVOLVING LINE OF CREDIT PROGRAM BECAME AVAILABLE IN 1983, 90 LOANS HAVE BEEN APPROVED TOTALING $24.1 MILLION.

THIS LEVEL OF ACTIVITY HAS NOT BEEN AS GREAT AS EXPECTED DUE IN PART TO A COMBINATION OF REASONS:

1. THE INCREASE IN THE VALUE OF THE U.S. DOLLAR WHICH MADE U.S. EXPORTS LESS COMPETITIVE IN WORLD MARKETS AND RESULTED IN INCREASINGLY LARGE TRADE DEFICITS AND LOST SALES OPPORTUNITIES FOR SMALL EXPORTERS;

2. THE OVERALL RETRENCHMENT IN BANK LENDING AWAY FROM TRADITIONAL TRADE FINANCING PARTICULARLY BY LARGER MONEY CENTER BANKS;

3. A RESTRUCTURING OF BANK ACTIVITY TOWARD MORE PROFITABLE OPERATIONS WHICH MINIMIZE LENDER RISK AND MAXIMIZE RETURN ON ASSETS AND CAPITAL;

4. A TENDENCY OF INTERNATIONAL DEPARTMENTS OF BANKS TO CONCENTRATE ON LARGER VALUE TRANSACTIONS RATHER THAN SMALL TRANSACTIONS WHICH REQUIRE MORE SERVICING AND RESULTANT OVERHEAD EXPENSES AND PROVIDE A LESSER RATE OF RETURN ON CAPITAL;

5. THE RELATIVE LACK OF EXPORT FINANCING EXPERTISE BY SMALLER BANKS WHICH ARE THE TRADITIONAL SOURCES OF SMALL BUSINESS FINANCING;

6. THE FACT THAT BANKS REGULARLY MAKE SHORT TERM REVOLVING LINE OF CREDIT LOANS ON THEIR OWN, THEREBY REDUCING THE NEED FOR AN SBA GUARANTY. IN CONTRAST, ONE REASON WHY THE SBA GUARANTY IS SO WIDELY USED IN LONG-TERM FINANCING FOR SMALL BUSINESSES IS THAT BANKS ARE NOT LONG-TERM LENDERS. THE SBA GUARANTY THEREFORE OCCUPIES A SPECIAL NICHE IN LONG-TERM FINANCING THAT IT DOES NOT OCCUPY IN SHORT-TERM FINANCING.

7. A CONCERN ABOUT THE CONTINUATION OF THE SMALL BUSINESS ADMINISTRATION'S PROGRAMS.

PROGRAMS OF THE EXPORT-IMPORT BANK ARE DESIGNED TO OVERCOME MANY OF THESE OBSTACLES. WE ARE WORKING WITH THE BANKS TO INCREASE THE SMALL BUSINESS COMMUNITY'S AWARENESS OF THESE OPPORTUNITIES.

I KNOW MR. CHAIRMAN, THAT I HAVE TAKEN A GREAT DEAL OF THE COMMITTEE'S TIME IN EXPLAINING WHAT WE HAVE BEEN DOING AT SBA, BUT I FELT IT IS IMPORTANT FOR YOU AND MEMBERS OF THE COMMITTEE TO KNOW WHAT WE HAVE ACCOMPLISHED WITH VERY LIMITED RESOURCES.

AREAS OF NECESSARY IMPROVEMENTS

AS I SAID EARLIER, I HAVE GIVEN THE TRADE ISSUE CONSIDERABLE THOUGHT AND ATTENTION AND I FEEL THERE ARE THREE AREAS OF IMPROVEMENT THAT ARE NECESSARY.

THEY ARE:
(1) INCREASED ATTENTION BY TOP MANAGEMENT
(2) INCREASED OUTREACH BY SBA AND OUR RESOURCE PARTNERS.
(3) BETTER COORDINATION WITH OTHER SOURCES OF ASSISTANCE, SUCH AS THE DEPARTMENT OF COMMERCE, STATE AGENCIES AND PRIVATE SECTOR ORGANIZATIONS CONCERNED WITH TRADE DEVELOPMENT.

DURING MY ADMINISTRATION I INTEND TO ELEVATE OUR TRADE PROGRAM ACTIVITY TO BE A MAJOR PRIORITY AT THE NATIONAL, REGIONAL AND LOCAL LEVELS.

OUR GOAL WILL BE: TO INCREASE SMALL BUSINESS EXPORT ACTIVITY BY 1) INCREASING AWARENESS OF EXPORT OPPORTUNITIES AND SOURCES OF ASSISTANCE AVAILABLE FROM PRIVATE AND PUBLIC SOURCES AND 2) PROVIDING APPROPRIATE ASSISTANCE TO SUPPLEMENT THAT PROVIDED BY EXISTING FEDERAL, STATE, OR PRIVATE SOURCES.

IN ORDER TO ACHIEVE OUR GOALS, I AM ANNOUNCING TODAY SEVERAL STEPS THAT WILL STRENGTHEN OUR INTERNATIONAL TRADE PROGRAM.

INCREASED MANAGEMENT FOCUS

1. CREATION OF A MANAGEMENT BOARD INTERNATIONAL TRADE TASK FORCE. THIS GROUP WILL MEET WITH ME ON A MONTHLY BASIS TO REVIEW THE PROGRESS IN IMPLEMENTING THIS PLAN, AND TO COORDINATE ONGOING AND NEW EFFORTS.

THE TASK FORCE WILL RECOMMEND WAYS TO: 1) INCREASE BUSINESS DEVELOPMENT RESOURCES DEVOTED TO TRADE IN DISTRICT OFFICES BY RE-ALLOCATING PRIORITIES OR ASSIGNMENTS; 2) ENCOURAGE GREATER INVOLVEMENT BY SCORE AND OUR OTHER RESOURCE PARTNERS IN INTERNATIONAL TRADE AND MORE EFFECTIVE COOPERATION WITH THE DEPARTMENT OF COMMERCE AND OTHER PRIVATE SECTOR NETWORKS; AND 3) INCREASE OUTREACH TO THE LENDING COMMUNITY TO ENCOURAGE THEIR PROVIDING EXPORT FINANCING TO SMALL BUSINESS.

MEMBERSHIP WILL INCLUDE SENIOR STAFF FROM BUSINESS DEVELOPMENT, FINANCE AND INVESTMENT, GENERAL COUNSEL, OFFICE OF INTERNATIONAL TRADE, MINORITY SMALL BUSINESS AND CAPITAL OWNERSHIP DEVELOPMENT, AND ADVOCACY.

2. AGENCY PRIORITY STATEMENT. I HAVE ISSUED A POLICY STATEMENT TO OUR FIELD STAFF TO REFLECT THE INCREASED PRIORITY I AM PLACING ON INTERNATIONAL TRADE. FURTHER GUIDANCE WILL BE GIVEN CONCERNING INCLUSION OF SPECIFIC TRADE PROMOTION COMPONENTS IN REGIONAL AND DISTRICT OPERATING PLANS AND AN ACCOUNTABILITY MECHANISM.

3. CREATION OF DISTRICT AND REGIONAL OFFICE TRADE TASK FORCES THESE GROUPS WILL CONSIST OF TOP REGIONAL AND DISTRICT LEVEL PERSONNEL WHO WILL ENSURE THAT A COORDINATED EFFORT TO ASSIST AND ADVISE FIRMS INVOLVED IN INTERNATIONAL TRADE IS IN PLACE AND ACCOMPLISHING THE OBJECTIVES I SET FORTH.

4. REGIONAL ADMINISTRATORS MEETING. OUR REGIONAL ADMINISTRATORS WILL MEET REGULARLY WITH ME TO REVIEW CURRENT EFFORTS AND ACTIONS NEEDED TO IMPLEMENT THIS PROGRAM. I FEEL IT IS IMPORTANT THAT WE INVOLVE OUR TOP FIELD MANAGEMENT IN DIRECTING THE FOCUS AND GUIDANCE OF THIS PROGRAM FROM THEIR UNIQUE REGIONAL PERSPECTIVE.

5. SBA NATIONAL ADVISORY COUNCIL (NAC). THE INTERNATIONAL TRADE SUBCOMMITTEE OF THE NAC HAS BEEN MEETING OVER THE PAST MONTH AND WILL SHORTLY PRESENT TO ME ITS RECOMMENDATIONS CONCERNING IMPROVEMENTS IN OUR PROGRAM. THESE RECOMMENDATIONS WILL BE PRESENTED FOR FULL DISCUSSION AT THE SEMIANNUAL MEETING OF THE FULL NAC ON MAY 18TH.

RE-PRIORITIZE EXISTING RESOURCES

1. TRAINING:

I FEEL IT IS EXTREMELY IMPORTANT THAT OUR FIELD STAFF, WHO ARE TO DIRECT AND MANAGE OUR RESOURCE PARTNERS INVOLVED IN OUR INTERNATIONAL TRADE PROGRAM, BE AS KNOWLEDGABLE AS POSSIBLE ON TRADE PROCEDURES. IN ORDER TO ACCOMPLISH THIS, I WANT TO TRAIN OUR BUSINESS DEVELOPMENT STAFF AND RESOURCE PARTNERS ON EXPORT PROCESSES, THE NEEDS OF THE SMALL BUSINESS EXPORTER, AND AVAILABLE EXPORT ASSISTANCE RESOURCES, AS WELL AS EXPORT FINANCE. THE CAREER TRAINING PROGRAM WHICH IS BEING DEVELOPED FOR OUR LOAN OFFICERS WILL ALSO INCLUDE EXPORT FINANCING.

2. OUTREACH:

THERE ARE MANY AREAS UNDER "OUTREACH" WHICH WE FEEL CAN BE EXPANDED UPON. WITHOUT GOING INTO MUCH DETAIL, I WILL LIST SOME OF THEM.

IN FY87, WE INTEND TO INCREASE OUR EFFORTS WITH PRIVATE SECTOR ORGANIZATIONS INCLUDING FOR-PROFIT CORPORATIONS, AS WELL AS FEDERAL, STATE AND LOCAL GOVERNMENTS, IN SUPPORTING OUTREACH PROGRAMS SUCH AS CONFERENCES, SEMINARS, AND WORKSHOPS. THE PURPOSE OF THIS OUTREACH EFFORT IS TO IDENTIFY POTENTIAL SMALL BUSINESS EXPORTERS AND PROVIDE LINKAGES TO NEEDED INFORMATION AND ASSISTANCE.

A. WE ARE NOW DEVELOPING A DIRECTORY OF RESOURCES FOR SMALL EXPORTERS TO BE DISSEMINATED THROUGH OUR RESOURCE PARTNERS.

B. WE WILL PUBLISH AN UPDATED BROCHURE SUMMARIZING FEDERAL SERVICES AVAILABLE TO SMALL EXPORTERS

C. WE WILL CONDUCT TEN 2-DAY REGIONAL CONFERENCES FOR SMALL BUSINESS OWNERS AND OTHERS INCLUDING LOCAL DEVELOPMENT OFFICIALS, ON EXPORT TRADE.

D. I HAVE ASKED THE TASK FORCE TO EXPLORE WAYS OF DEVELOPING VIDEO MATERIALS RELATED TO EXPORT OPPORTUNITES WHICH WILL BE USED BY OUR FIELD OFFICES AND MADE AVAILABLE TO CHAMBERS OF COMMERCE, CABLE NETWORKS, AND ANY OTHER INTERESTED ORGANIZATIONS.

E. WE WILL UTILIZE OUR PROCUREMENT AUTOMATED SOURCE SYSTEM (PASS) LIST TO DISTRIBUTE INFORMATION ON EXPORTING SERVICES AVAILABLE FROM SBA AND OTHER ORGANIZATIONS AS WELL AS SCHEDULES OF UPCOMING TRADE CONFERENCES.

F. WE WILL DISTRIBUTE MATERIAL FROM THE DEPARTMENT OF COMMERCE AND OTHER AGENCIES, WHICH WOULD BE OF ASSISTANCE TO SMALL BUSINESSES.

G. WE WILL DEVELOP A PLAN TO LINK OUR DISTRICT OFFICES TO THE COMPUTERIZED INFORMATION MANAGEMENT SYSTEM OF THE COMMERCE DEPARTMENT TO HELP COMMERCE IN ITS EFFORTS TO REACH MORE SMALL EXPORTERS.

H. IF AND WHEN THE FREE TRADE AGREEMENT WITH CANADA GOES INTO AFFECT, WE WILL, IN COOPERATION WITH THE COMMERCE DEPARTMENT AND THE OFFICE OF THE U.S. TRADE REPRESENTATIVE, CONDUCT A SERIES OF CONFERENCES IN BORDER STATES TO EXPLAIN ITS BENEFITS TO SMALL U.S. FIRMS. THE ESTIMATED POTENTIAL BENEFIT TO THE U.S. ECONOMY FROM A COMPREHENSIVE AGREEMENT IS $15 BILLION.

3. RE-FOCUS RESOURCE PARTNERS

A. RECRUITMENT OF SCORE/ACE VOLUNTEERS: WE WILL UNDERTAKE A CAMPAIGN THROUGH SCORE TO RECRUIT MORE SCORE/ACE VOLUNTEERS WITH TRADE EXPERTISE TO AUGMENT

OUR EXISTING NETWORK OF 250. I WILL ASK THE NATIONAL SCORE ORGANIZATION TO APPOINT A FULL TIME TRADE DIRECTOR IN THE SCORE NATIONAL OFFICE IN WASHINGTON TO ASSIST IN DEVELOPING A TRADE PROGRAM TO MORE EFFECTIVELY SERVE OUR SMALL BUSINESS COMMUNITY.

THE STATE OF TENNESSEE DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT AND THE SCORE CHAPTERS IN FIVE CITIES IN TENNESSEE ARE DEVELOPING A REFERRAL MECHANISM BY WHICH COMPANIES CONTACTING THE INTERNATIONAL TRADE DIVISION WILL BE DIRECTED TO EXPERIENCED SCORE INTERNATIONAL TRADE COUNSELORS FOR INITIAL EXPORT COUNSELING. SCORE AND THE STATE ARE PLANNING A ONE-DAY EXPORT CONFERENCE TO BE HELD IN KNOXVILLE FOR SMALL EXPORTERS IN JULY.

B. SBDC PROGRAM PRIORITIES: SBDCs ARE TO BE RESPONSIVE TO LOCAL NEEDS. WHERE DEMANDS FOR SUCH ASSISTANCE EXISTS, I WANT SBDCs TO PLACE MORE EMPHASIS ON TRADE ASSISTANCE AND I WILL SET GOALS FOR SBDC INTERNATIONAL TRADE ACTIVITY. THIS CAN BE

ACCOMPLISHED WITHOUT ADDITIONAL FUNDING BY REDUCING THE OVERLAP OF SERVICES NOW BEING DELIVERED BY SBDCs AND SCORE IN THE AREA OF PRE-BUSINESS WORKSHOPS. SCORE HAS AGREED TO ASSUME GREATER RESPONSIBILITY FOR PROVIDING PRE-BUSINESS WORKSHOPS. IMPLEMENTATION OF MODEST USER FEES WILL ALSO HELP SBDCs FULFILL THE DEMANDS OF THEIR SMALL BUSINESS CLIENTS.

C. I ALSO WILL ENCOURAGE SBDCs TO ASSIST EACH OTHER IN TRAINING AND DEVELOPING TRADE ASSISTANCE PROGRAMS.

4. FINANCIAL ASSISTANCE

A. I WANT TO INCREASE SMALL BUSINESS AWARENESS OF PUBLIC AND PRIVATE SECTOR SOURCES OF EXPORT FINANCING. THIS WILL BE ACCOMPLISHED THROUGH OUR PLANNED CONFERENCES AND OTHER OUTREACH EFFORTS.

B. AN OUTREACH PROGRAM WILL BE UNDERTAKEN TO IDENTIFY BANKS INVOLVED IN SMALL BUSINESS EXPORT FINANCE AND TO SHARE THIS INFORMATION WITH OUR BUSINESS DEVELOPMENT PERSONNEL, SCORE, SBDC'S AND WITH THE ADVOCACY ANSWER DESK.

C. EXPANDED COOPERATION WITH PRIMARY EXPORT ASSISTANCE PROVIDERS

1. TAKE SPECIFIC STEPS TO IMPLEMENT THE NEW INTERAGENCY AGREEMENT WITH THE DEPARTMENT OF COMMERCE TO INCLUDE SPECIFIC DATES AND PLACES OF JOINT CONFERENCES AND POSSIBLE CROSS-TRAINING OF PERSONNEL.

2. PROPOSE AN INTERAGENCY SMALL BUSINESS EXPORT ASSISTANCE COMMITTEE WHICH WOULD MEET QUARTERLY.

3. EXPAND OUR WORKING RELATIONSHIPS WITH STATE EXPORT DEVELOPMENT AGENCIES TO INCLUDE JOINT SPONSORSHIP OF OUTREACH/TRAINING PROGRAMS, DISTRIBUTION OF INFORMATIONAL MATERIALS AND CROSS REFER SMALL BUSINESS CLIENTS.

4. WE ARE DEVELOPING A MEMORANDUM OF UNDERSTANDING WITH THE AGENCY FOR INTERNATIONAL DEVELOPMENT TO FACILITATE GREATER COOPERATION BETWEEN OUR TWO AGENCIES.

IN THE COMING MONTHS, SBA WILL COSPONSOR WITH THE EXPORT-IMPORT BANK A SERIES OF OUTREACH CONFERENCES TO BE HELD AROUND THE COUNTRY TO EXPLAIN TO THE SMALL BUSINESS EXPORTING COMMUNITY EXIM'S NEW FINANCING PROGRAMS.

LET ME ASSURE THIS COMMITTEE, THAT SBA WILL CONTINUE ITS EFFORTS TO ENCOURAGE BANKS TO PROVIDE SMALL BUSINESSES THE EXPORT FINANCING THEY NEED THROUGH WHATEVER PROGRAMS ARE APPROPRIATE.

MR. CHAIRMAN, I BELIEVE SBA HAS SOME OF THE BEST RESOURCES IN ASSISTING SMALL BUSINESS CLIENTS. WHETHER WE ARE TALKING GENERAL BUSINESS GUIDANCE OR SPECIAL PROGRAMS LIKE INTERNATIONAL TRADE, THE SERVICE CORPS OF RETIRED EXECUTIVES (SCORE), SMALL BUSINESS DEVELOPMENT CENTERS, SMALL BUSINESS INSTITUTES AND OTHER PUBLIC AND PRIVATE RESOURCE PARTNERS HAVE A RAPPORT WITH SMALL BUSINESS THAT IS UNMATCHED AND CAN BECOME AN EVEN MORE IMPORTANT RESOURCE FOR SMALL BUSINESSES.

MR. CHAIRMAN, YOU ALSO REQUESTED THAT I PROVIDE YOU WITH MY THOUGHTS ON THE HOUSE SMALL BUSINESS COMMITTEE'S RECENT PROPOSAL TO INCREASE SMALL BUSINESS EXPORTS. THE BILL PROPOSES MANY INITIATIVES, SEVERAL OF WHICH I HAVE ALREADY UNDERTAKEN. I DO HAVE CONCERNS WITH A NUMBER OF FEATURES OF THE BILL. UNLESS THESE CONCERNS ARE ADEQUATELY ADDRESSED I CANNOT SUPPORT THE BILL.

H.R. 1854 HAS MANY OBJECTIONABLE FEATURES. ONE OF OUR OBJECTIONS TO THE HOUSE BILL IS THE PROVISION PROVIDING AN ADDITIONAL

$5 MILLION DEVOTED EXCLUSIVELY TO ONE RESOURCE - SBDCs. WHILE SBDC'S CAN IN SOME SITUATIONS PROVIDE AN EFFECTIVE AND APPROPRIATE VEHICLE FOR DELIVERING THIS SERVICE TO THE SMALL BUSINESS CLIENT, IT IS ONLY ONE FACET OF OUR TOTAL INTERNATIONAL TRADE EFFORT. THIS WOULD DENY THE ADMINISTRATOR DISCRETIONARY AUTHORITY TO USE THOSE FUNDS IN SUPPORT OF A TOTAL INTERNATIONAL TRADE PROGRAM. IN THAT WAY IT WOULD BE OF MAXIMUM BENEFIT TO SMALL BUSINESS CLIENTS. WE ARE NOT REQUESTING ADDITIONAL FUNDING BECAUSE WE BELIEVE THAT IF EXPORT RELATED PROGRAM ARE ACCORDED A HIGH PRIORITY STATUS, THEY CAN BE ACCOMPLISHED WITHIN THE EXISTING RESOURCE LEVEL. GIVEN THE SERIOUS BUDGET DEFICIT WE DO NOT THINK IT IS APPROPRIATE TO REQUEST MORE FUNDING AT A TIME WHEN FISCAL RESTRAINT IS NEEDED BY OUR ECONOMY.

H.R. 1854, AS AMENDED, CALLS FOR AN ENTIRELY NEW LOAN PROGRAM, VIRTUALLY IDENTICAL TO OUR EXISTING CERTIFIED DEVELOPMENT COMPANY PROGRAM WHICH DOES MEET THE NEEDS OF SMALL BUSINESS. I HAVE PROPOSED GREATER OUTREACH TO EXISTING CERTIFIED DEVELOPMENT COMPANIES TO BETTER UTILIZE THAT EXISTING PROGRAM FOR EXPORT PURPOSES.

THE LEGISLATION SPELLS OUT MANY NECESSARY AND SPECIFIC TASKS FOR THE SBA OFFICE OF INTERNATIONAL TRADE. SOME ARE INAPPROPRIATE OR CANNOT BE ACCOMPLISHED WITH EXISTING STAFF LEVELS. FOR EXAMPLE, THE BILL CALLS ON THE OFFICE TO CONDUCT RESEARCH THAT WE ESTIMATE WILL COST $1 MILLION AND TAKE CONSIDERABLY LONGER THAN THE SIX MONTHS CALLED FOR IN THE BILL.

AS YOU CONSIDER LEGISLATION MR. CHAIRMAN, I URGE YOU TO TAKE THESE CONCERNS INTO ACCOUNT.

THANK YOU FOR THE OPPORTUNITY TO SHARE THESE VIEWS WITH YOU. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS.

Senator SASSER. Thank you, Mr. Administrator. We will turn now to Secretary Smart.

STATEMENT OF BRUCE SMART, UNDER SECRETARY FOR INTERNATIONAL TRADE, U.S. DEPARTMENT OF COMMERCE

Mr. SMART. I too have a statement I have submitted for the record, and in it I have detailed a great many things that the Department is now doing in this particular area. So I will not try to repeat all of that but instead will summarize.

The Department of Commerce and more specifically the International Trade Administration of the Department, for which I am responsible, is engaged in achieving many of the objectives of H.R. 1854 and clearly shares with the drafters of that Bill the objective of helping small businesses to compete more effectively in the international sector.

I would like to approach this problem as a businessman. Obviously as we look at small business in its broadest sense, we realize that some percentage of those businesses are logical exporters, but not all of them. As we went over our figures in preparation for this particular meeting, it was clear that at the moment at least, those areas in which small businesses have been most successful are areas such as specialized machinery, high tech devices such as instruments, specialized equipment with a relatively narrow market opportunity, and services businesses such as export-import companies.

Now there undoubtedly are other categories of small business that we can bring into the export field. When we do so, we find from our experience in working with them that they need certain categories of specialized help. We can not do the export job for them. But we can be very, very helpful to them.

First of all, these are some of the things that we now do, particularly in the United States and Foreign Commercial Service of the Commerce Department. We provide them with commercial and market information which will enable them to determine what their opportunities are, where they might go, and give them the information that they might need to become effective exporters.

Second, we need to help them and we do help them in making overseas contacts through buying missions, through trade fairs and trade missions to other countries, and through contacts with potential agents and distributors.

Finally, they need financial support. Seed money to take on some of these initial contact activities which the SBA has been helpful with, access to Exim and OPIC, and finally working capital and other financial support.

We think that our present mode of operation with the SBA has been effective, in that the SBA with the responsibility for the whole range of small businesses in America is in the best position to identify, to screen, and to orient small businesses that are interested in exporting in the early stages of their interest. And then to turn them over to the International Trade Administration to pick up and handle from there on. And that is generally the thrust of the memorandum of understanding that we have with the SBA.

These companies, as they come to us, become users of the services of all of the four operating units of the Department's International Trade Administration: trade development, trade administration, international economic policy, and most particularly the United States and Foreign Commercial Service. We help them in such matters as export licensing, problems they may have with our antidumping and counterfeiting duty laws. We help them as they participate in the establishment and implementation of trade policy where we work very closely with the USTR, and in an industry by industry analysis that our trade development experts take on.

But the most regularly involved of our organizations is the United States and Foreign Commercial Service, because their reason for being is to deliver these services contemplated in H.R. 1854.

The United States and Foreign Commercial Service is the only U.S. Government agency responsible for trade that has domestic and overseas offices manned by people who are skilled in promoting and assisting exporters. We have a total of over 1,200 employees in this unit, located in 127 commercial offices in 66 foreign countries and in about 67 offices around the United States.

Small- and medium-sized businesses are the primary beneficiaries of this network because obviously the IBMs of the world have their own.

We have domestic trade specialists both here and abroad that will conduct approximately 270,000 counseling sessions this year, and if we apply to that the ratios of past years, over 90 percent of those will be for firms having fewer than 250 employees. So we are counseling on the order of 240,000 individual small businessmen, or at least that many sessions.

We know that small business must play an increasing role in our economy and in enhancing our competitiveness. For this reason we have designed a series of programs that are particularly useful to them. We can divide them into five areas: counseling and commercial information, market identification and assessment, trade contact services, overseas export promotions, and awareness of export possibilities.

These enable small businesses to learn about trade opportunities, foreign markets, potential strategies, and ultimately take them if necessary to the country as individuals as part of international trade shows or missions, and put them in touch with people there who can be their agents, distributors or partners.

My written testimony details many of these services.

As the lead Federal agency for trade promotion, we also work closely with the Eximbank, and of course the SBA.

We have had a number of cooperative activities, but the most recent is the memorandum of understanding with the SBA, which is a part of my written testimony.

We are working with SBA particularly on the development of international trade shows. SBA's financial assistance, seed money that enables a company to bear some of the financial burden of participating in those shows, has been very useful. It has been the thing that has tipped over a number of potential exporters to take a look firsthand at the possibilities. I understand the funding for this is more limited than it has been. We need it to be preserved.

You wanted my comments on the proposed trade legislation.

I think in summary, we agree with the objectives, but are concerned that what is being set up is a redundant procedure that in effect duplicates what is already in place. So we would urge you as you look for a small business export assistance title, that you look at ways of reinforcing what we are already doing, rather than duplicating it.

H.R. 1854 directs the SBA to engage in many of the same promotion activities that Commerce is mandated to perform. According to the Small Business Development Act in 1976, SBA is not to duplicate those activities, but rather to work with them.

There is also new areas of responsibility for small business development centers, requiring them to identify and develop potential exporters, facilitate export transactions, develop links between U.S. small firms and prescreen foreign buyers. These are things we are now doing, principally for small business. If there is a way of doing them better we would like to have your counsel on that. But it seems foolish to set up a parallel track.

We do think however, that SBA can and should identify potential exporters, and anything that can improve that we would be very much in favor of.

I think that sums up where we are, and we look forward to your questions and developing anything from them that can be helpful to you.

[The prepared statement of Mr. Smart follows:]

TESTIMONY OF
UNDER SECRETARY BRUCE SMART
U.S. DEPARTMENT OF COMMERCE
BEFORE THE
SENATE SUBCOMMITTEE ON EXPORT EXPANSION
COMMITTEE ON SMALL BUSINESS

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I AM PLEASED TO HAVE THIS OPPORTUNITY TO DISCUSS THE EXPORT PROMOTION PROGRAMS OF THE INTERNATIONAL TRADE ADMINISTRATION OF THE DEPARTMENT OF COMMERCE AND, SPECIFICALLY, HOW SMALL BUSINESS IS SERVED BY THESE PROGRAMS. THE DEPARTMENT SHARES--AND INDEED IS ENGAGED IN ACHIEVING--MANY OF THE OBJECTIVES OF H.R. 1854 TO IMPROVE THE ABILITY OF SMALL BUSINESSES TO COMPETE IN INTERNATIONAL MARKETS.

SMALL BUSINESSES ARE BY DEFINITION USUALLY RESTRICTED BY THEIR LIMITED RESOURCES WHEN IT COMES TO ASSEMBLING INFORMATION ON INTERNATIONAL MARKETS, COMPETITORS OR POTENTIAL BUSINESS PARTNERS, OR REACHING OUT TO BUSINESS OPPORTUNITIES FAR FROM HOME. THEY ARE, THEREFORE, MAJOR USERS OF THE SERVICES OF THE 4 OPERATING UNITS OF THE DEPARTMENT'S INTERNATIONAL TRADE ADMINISTRATION: TRADE ADMINISTRATION; TRADE DEVELOPMENT; INTERNATIONAL ECONOMIC POLICY; AND THE U.S. AND FOREIGN COMMERCIAL SERVICE.

EACH OF THESE UNITS HAS RESPONSIBILITIES THAT HELP SMALL BUSINESSES, INCLUDING SUCH ACTIVITIES AS: EXPORT LICENSING; ADMINISTRATION OF OUR ANTI-DUMPING AND COUNTERVAILING DUTY LAWS; PARTICIPATION IN THE ESTABLISHMENT AND IMPLEMENTATION OF TRADE POLICY AND INDUSTRY BY INDUSTRY ANALYSIS AND TRADE DEVELOPMENT. THE MOST REGULARLY INVOLVED IS THE U.S. AND FOREIGN COMMERCIAL SERVICE (US&FCS), WHOSE REASON FOR BEING IS TO DELIVER JUST THE KIND OF SERVICES CONTEMPLATED IN MUCH OF H.R. 1654.

ITA, FOR WHICH I AM RESPONSIBLE, IS THE ONLY U.S. GOVERNMENT AGENCY WITH BOTH DOMESTIC AND OVERSEAS OFFICES MANDATED TO FACILITATE EXPORTS OF GOODS AND SERVICES PRODUCED BY U.S. BUSINESSES. OUR MISSION IS TO PROMOTE U.S. EXPORTS, EXPAND THE NUMBER OF EXPORTERS, AND ASSIST U.S. COMPANIES IN THE INTERNATIONAL MARKETPLACE.

WE ARE STRATEGICALLY POSITIONED WORLDWIDE TO ACCOMPLISH THIS MISSION. US&FCS HAS 1200 EMPLOYEES IN 127 COMMERCIAL OFFICES IN 66 FOREIGN COUNTRIES AND 48 DISTRICT AND 19 BRANCH OFFICES IN THE UNITED STATES. IN ADDITION, WE HAVE DEVELOPED AN EXTENSIVE NETWORK OF AFFILIATED "MULTIPLIER" ORGANIZATIONS. WHILE THIS NETWORK EXISTS TO CHAMPION THE COMMERCIAL INTERESTS OF ALL FIRMS THROUGHOUT THIS COUNTRY, SMALL BUSINESSES ARE THE PRIMARY BENEFICIARY.

ON ONE HAND, THE SBA IS PRIMARILY RESPONSIBLE FOR SMALL BUSINESS CONCERNS. ON THE OTHER HAND, THE DEPARTMENT OF COMMERCE IS SENSITIVE TO THE NEEDS OF SMALL BUSINESS BECAUSE OF THE IMPORTANCE OF THESE FIRMS TO OUR ECONOMY AND THE CONTRIBUTIONS THEY CAN MAKE TO OUR INTERNATIONAL COMPETITIVENESS.

ITA IS THE LEAD FEDERAL AGENCY FOR TRADE FACILITATION AND EXPORT PROMOTION. OTHER AGENCIES, SUCH AS THE EXIM BANK AND THE SMALL BUSINESS ADMINISTRATION (SBA), HAVE IMPORTANT ROLES TO PLAY, AND WE WORK WITH THEM REGULARLY. BY COORDINATING OUR EFFORTS WITH THESE AND OTHER FEDERAL AGENCIES, WE AIM TO MAXIMIZE EXPORT PROMOTION RESULTS AND HOLD DOWN THE COST OF DELIVERING THESE SERVICES. OVER THE YEARS, THE DEPARTMENT OF COMMERCE AND THE SBA HAVE ENTERED INTO SEVERAL AGREEMENTS WITH THIS PURPOSE IN MIND.

MOST RECENTLY, ON MARCH 19, 1987, THE SECRETARY OF COMMERCE AND THE ADMINISTRATOR OF THE SMALL BUSINESS ADMINISTRATION SIGNED A MEMORANDUM OF UNDERSTANDING (MOU) WHICH RE-ENFORCES A COOPERATIVE RELATIONSHIP DESIGNED TO ASSIST SMALL BUSINESS FIRMS TO ENTER INTO AND DEVELOP EXPORT MARKETS AND COORDINATE THE DELIVERY OF EXPORT PROMOTION AND OTHER EXPORT RELATED SERVICES. A PRINCIPAL PURPOSE OF THIS AGREEMENT IS TO AVOID DUPLICATION OF EFFORT BETWEEN OUR TWO AGENCIES AND IMPROVE THE DELIVERY OF EXPORT PROMOTION SERVICES.

OUR OVERALL ASSESSMENT OF H.R. 1854 IS THAT IT WILL DO EXACTLY WHAT WE AND SBA HAVE BEEN TRYING TO AVOID. BOTH MR. ABDNOR AND I AGREE IT WILL DUPLICATE FEDERAL EXPORT PROMOTION SERVICES, AND REDUCE COST EFFECTIVENESS WITHOUT ADDING TO THE COOPERATION SBA AND US&FCS ARE ALREADY PURSUING.

DEPARTMENT OF COMMERCE SERVICES ARE DESIGNED TO ASSIST ALL U.S. FIRMS, BUT SOME ARE ESPECIALLY HELPFUL TO SMALL BUSINESS.

THESE PROGRAMS AND SERVICES CAN BE DIVIDED INTO FIVE AREAS: 1) COUNSELING AND COMMERCIAL INFORMATION; 2) MARKET IDENTIFICATION AND ASSESSMENT; 3) TRADE CONTACT SERVICES; 4) OVERSEAS EXPORT PROMOTIONS; 5) AWARENESS OF EXPORT POSSIBILITIES. THROUGH THESE SERVICES, SMALL BUSINESSES LEARN ABOUT TRADE AND INVESTMENT OPPORTUNITIES, FOREIGN MARKETS FOR U.S. PRODUCTS AND SERVICES, INTERNATIONAL MARKETING STRATEGIES, EXPORT FINANCING AND INSURANCE, INTERNATIONAL TRADE SHOWS/MISSIONS, BUSINESS FACILITATION SERVICES, TRADE DISPUTE ASSISTANCE AND EXPORT LICENSING ASSISTANCE.

COUNSELING AND COMMERCIAL INFORMATION

PROFESSIONAL COUNSELING IS ONE OF THE MOST IMPORTANT WAYS TO PROMOTE EXPORTS. THIS YEAR OUR UNITED STATES-BASED DISTRICT OFFICE TRADE SPECIALISTS WILL CONDUCT MORE THAN 143,000 COUNSELING SESSIONS WITH INDIVIDUAL FIRMS, ASSOCIATE OFFICES, AND STATE AND LOCAL GOVERNMENT ORGANIZATIONS. OVERSEAS, OUR COMMERCIAL OFFICERS WILL CONDUCT ANOTHER 125,000 COUNSELING SESSIONS. IN ADDITION, OUR INDUSTRY SPECIALISTS AND COUNTRY DESK OFFICERS BASED IN WASHINGTON, D.C. WILL CONDUCT NUMEROUS SPECIALIZED COUNSELING SESSIONS. BASED ON PREVIOUS YEARS, 90% OF ALL SESSIONS WILL BE WITH SMALL FIRMS HAVING FEWER THAN 250 EMPLOYEES.

OUR TRADE SPECIALISTS ALSO ASSIST COMPANIES IN OBTAINING AND ANALYZING COMMERCIAL INFORMATION. SUCH HELP IS OF PRIORITY INTEREST TO SMALL FIRMS FIRST ENTERING FOREIGN MARKETS. SUBJECTS COVERED INCLUDE PLANNING AND MANAGEMENT FUNDAMENTALS OF INTERNATIONAL MARKETING, SETTING TERMS OF PAYMENT, NEGOTIATING AGENT/DISTRIBUTOR AGREEMENTS, DEALING WITH LANGUAGE AND BUSINESS CUSTOMS OF A PARTICULAR COUNTRY, AND FACILITATING ACCESS TO FINANCIAL SUPPORT FROM THE SBA, EXIM BANK AND OTHER ORGANIZATIONS SUCH AS THE WORLD BANK AND ITS AFFILIATED DEVELOPMENT BANKS.

MARKET IDENTIFICATION AND ASSESSMENT

STATISTICAL INFORMATION SERVICES AND MARKET RESEARCH REPORTS QUANTIFY WORLD-WIDE PRODUCT FLOW AND MARKET CONDITIONS A U.S. COMPANY CAN EXPECT. WITH THIS INFORMATION, SMALL BUSINESSES CAN MAKE INITIAL DECISIONS ABOUT THEIR EXPORTING PROSPECTS AND THE COMPETITION THEY CAN EXPECT. STATISTICAL AND MARKET REPORTS INCLUDE INFORMATION ON SHIPMENTS COMPILED BY THE BUREAU OF THE CENSUS, UNITED NATIONS AND STANDARD ITA PUBLICATIONS SUCH AS OVERSEAS BUSINESS REPORTS (OBR) AND FOREIGN ECONOMIC TRENDS (FET).

WE HAVE DEVELOPED A NEW SERVICE CALLED COMPARISON SHOPPING WHICH PROVIDES A FIRM WITH CONCISE, CUSTOM-TAILORED ANSWERS TO KEY QUESTIONS ON ITS OWN PRODUCT: OVERALL MARKETABILITY; NAMES OF COMPETITORS; COMPARATIVE PRICES; CUSTOMARY ENTRY, DISTRIBUTION AND PROMOTION PRACTICES; FACTORS THAT MAY INFLUENCE COMPETITIVENESS; AND INFORMATION ON TRADE BARRIERS. SMALL

BUSINESSES TELL US THIS NEW SERVICE IS VITAL TO THEIR EXPORT EFFORTS BY PROVIDING NEEDED INFORMATION IN A TIMELY MANNER WITHOUT THE COST OF FOREIGN TRAVEL.

COMPUTERIZATION OF THESE STATISTICAL AND MARKET REPORTS ENHANCES OUR ABILITY TO COMPETE IN WORLD MARKETS. WE ARE NOW INSTALLING OUR NEW COMPUTERIZED COMMERCIAL INFORMATION MANAGEMENT SYSTEM (CIMS) WHICH WILL PROVIDE IMMEDIATE ACCESS TO DETAILED INFORMATION NECESSARY TO MEET THE NEEDS OF U.S. EXPORTERS.

TRADE CONTACT SERVICES

US&FCS TRADE CONTACT SERVICES ARE DESIGNED TO HELP BUSINESSES LOCATE CURRENT TRADE LEADS; IDENTIFY AND SELECT FOREIGN BUYERS, AGENTS, DISTRIBUTORS AND IMPORTERS; ADVERTISE NEW PRODUCTS OVERSEAS; AND QUALIFY PROSPECTIVE TRADING PARTNERS. THE FOLLOWING CORE SERVICES OF THE US&FCS ARE AMONG THE TOOLS MOST FREQUENTLY USED BY SMALL BUSINESSES:

- TRADE OPPORTUNITIES PROGRAM (TOP). THIS SUBSCRIPTION SERVICE PROVIDES FIRMS WITH INFORMATION ON CURRENT FOREIGN SALES OPPORTUNITIES FOR THEIR PRODUCTS.

- o COMMERCIAL INFORMATION RETRIEVAL SERVICE (CIRS). THIS COMPUTERIZED MAILING LIST PROVIDES U.S. FIRMS WITH DATA ABOUT FOREIGN FIRMS THAT HAVE TRADED WITH THE U.S.
- o AGENT/DISTRIBUTOR SERVICE (ADS). THIS SERVICE HELPS U.S. COMPANIES LOCATE INTERESTED AND QUALIFIED OVERSEAS AGENTS AND PROVIDES FOR AN INITIAL INTRODUCTION TO THEM.
- o NEW PRODUCT INFORMATION SERVICE (NPIS). THE NPIS PROVIDES WORLDWIDE PUBLICITY FOR NEW U.S. PRODUCTS AVAILABLE FOR IMMEDIATE EXPORT. INFORMATION IS PUBLISHED IN OUR COMMERCIAL NEWS USA, WITH AN OVERSEAS DISTRIBUTION OF 90,000. DURING FY 86, A TOTAL OF 1145 FIRMS USED THIS SERVICE, 87% OF WHICH WERE SMALL FIRMS.
- o WORLD TRADERS DATA REPORT (WTDR). WTDR'S HELP QUALIFY FOREIGN FIRMS AS PROSPECTIVE BUSINESS PARTNERS BY PROVIDING BACKGROUND INFORMATION ON THEM TO INTERESTED U.S. COMPANIES.

TRADE CONTACT SERVICES ALSO INCLUDE OTHER LOW COST EFFORTS PARTICULARLY APPROPRIATE TO SMALL FIRMS SUCH AS THE FOREIGN BUYER PROGRAM (FBP), WHICH BRINGS AMERICAN FIRMS TOGETHER WITH QUALIFIED FOREIGN BUYERS AT U.S. TRADE SHOWS. THIS YEAR WE WILL HAVE 15 FBP SHOWS ATTENDED BY OVER 51,000 FOREIGN BUSINESS VISITORS.

OVERSEAS TRADE PROMOTIONS

WE OFFER U.S. BUSINESSES A VARIED MENU OF EXPORT PROMOTION EVENTS AT WHICH TO SHOWCASE THEIR PRODUCTS TO OVERSEAS PROSPECTS. INCLUDED ARE TRADE FAIRS, TRADE AND SEMINAR MISSIONS, CATALOG/VIDEO CATALOG SHOWS AND SPECIAL EVENTS

LIKE THE "GREAT STORES OF THE WORLD" PROGRAM. LAST YEAR OVER 2,700 FIRMS PARTICIPATED IN ITA TRADE EVENTS, WHICH ARE RUN ON A COST RECOVERY BASIS. ALTHOUGH FIRMS ARE OFTEN RELUCTANT TO INFORM US OF THEIR RESULTS, $180 MILLION IN OFF-THE-FLOOR SALES, 141,000 TRADE LEADS, AND OVER 1,600 AGENT, LICENSE AND JOINT VENTURE AGREEMENTS WERE REPORTED.

SMALL FIRMS OFTEN CHOOSE TO PARTICIPATE IN CATALOG AND VIDEO-CATALOG EXHIBITIONS. IN 1986, TWENTY OF THESE EXHIBITIONS PROVIDED MORE THAN 865 U.S. BUSINESSES AN OPPORTUNITY TO DISPLAY THEIR GOODS TO BUYERS IN 100 COUNTRIES. THESE EXHIBITIONS GENERATED 29,506 TRADE LEADS FOR AN AVERAGE OF 34 TRADE LEADS PER FIRM. OVER 60% OF THESE FIRMS WERE SMALL.

AWARENESS OF EXPORT POSSIBILITIES

OUR OBJECTIVE IS TO REACH A BROAD BUSINESS AUDIENCE THROUGH SEMINARS WE CONDUCT, PUBLICATIONS WE PRODUCE AND ADVERTISEMENTS WE PLACE IN THE POPULAR PRESS.

THIS YEAR, WE WILL STAGE OVER 3,400 DOMESTIC SEMINARS ON SUBJECTS RANGING FROM THE BASICS OF HOW TO EXPORT TO SPECIAL COUNTRY-ORIENTED TOPICS. THE SEMINARS ARE HELD IN SMALL TOWNS AS WELL AS METROPOLITAN AREAS. THEIR AUDIENCES ARE PRIMARILY REPRESENTATIVES OF SMALL BUSINESSES. FOR THE RECORD, I AM INCLUDING A REPRESENTATIVE LIST OF THESE SEMINARS.

DURING 1985 AND 1986, THE US&FCS PROVIDED FULL SUPPORT TO THE WHITE HOUSE CONFERENCE ON SMALL BUSINESS. IN EACH OF THE 50 STATES, DISTRICT OFFICES ASSISTED IN THE MARKETING AND PROMOTION OF THE CONFERENCES AS WELL AS THE IDENTIFICATION OF THE MODERATORS AND RESOURCE PEOPLE.

WE PRODUCE A VARIETY OF PUBLICATIONS TO LET U.S. BUSINESS KNOW MORE ABOUT THE ADVANTAGES OF EXPORTING, SOURCES OF EXPORT FINANCING AND ASSISTANCE, AS WELL AS GENERAL TRADE INFORMATION. A PRIME EXAMPLE IS THE BASIC GUIDE TO EXPORTING, A "HOW-TO" MANUAL ON THE MECHANICS OF EXPORTING FOR NEW-TO-EXPORT COMPANIES WHICH IS PARTICULARY USEFUL TO SMALL BUSINESSES.

WE ARE INVOLVED IN AN EXTENSIVE ADVERTISING CAMPAIGN TO REACH A BROAD BUSINESS COMMUNITY. WE ARE WORKING CLOSELY WITH THE AD COUNCIL, A NON-PROFIT ORGANIZATION, IN THE PREPARATION OF ADS WHICH HAVE STARTED RUNNING IN MAJOR DAILY NEWSPAPERS, BUSINESS PUBLICATIONS AND TRADE JOURNALS. IN ADDITION, WE ARE MAKING USE OF PROMOTIONAL TECHNIQUES, SUCH AS DIRECT-MAIL CAMPAIGNS, TARGETED ARTICLES IN INDUSTRY PUBLICATIONS, PIGGY-BACK ADVERTISING AND PUBLIC SERVICE RADIO SPOTS.

WE ALSO RECOGNIZE EXPORTING ACHIEVEMENTS OF COMPANIES BY GRANTING THE PRESIDENT'S "E" AWARD AND "E STAR" AWARD FOR EXCELLANCE IN EXPORTING. DURING 1986, 40 AWARDS WERE APPROVED, 60% OF WHICH WENT TO SMALL BUSINESS RECIPIENTS.

THE FEATURES OF THESE FIVE PROGRAM AREAS PROVIDE FOR BROAD OUTREACH AND COMPREHENSIVE ASSISTANCE TO SMALL BUSINESSES.

COOPERATION WITH MULTIPLIER ORGANIZATIONS

ITA PROGRAMS ARE IMPLEMENTED IN CLOSE COOPERATION WITH A WIDE RANGE OF SUPPORTIVE ORGANIZATIONS. AMONG THEM ARE OUR DISTRICT EXPORT COUNCILS (DECS), THE INDUSTRY SECTOR ADVISORY COMMITTEE ON SMALL AND MINORITY BUSINESS (ISAC), OUR NETWORK OF ASSOCIATE OFFICES, AND STATE AND SBA OFFICES.

THE 51 DECS ARE COMPRISED OF 1800 BUSINESS LEADERS, MANY FROM SMALL BUSINESSES. THE ISAC IS COMPRISED OF REPRESENTATIVES OF 25 SMALL BUSINESSES WHO ADVISE COMMERCE AND THE USTR ON TRADE POLICY ISSUES. OUR 796 ASSOCIATE OFFICES RANGE FROM INDUSTRY ASSOCIATIONS, EDUCATIONAL INSTITUTIONS AND TRADE AND BUSINESS ORGANIZATIONS, INCLUDED AMONG THESE ARE 31 SMALL BUSINESS DEVELOPMENT CENTERS (SBDC).

WE ARE STRENGTHENING OUR WORKING RELATIONSHIP WITH THE STATES AND SBA OFFICES. WORKING WITH THE NATIONAL ASSOCIATION OF STATE DEVELOPMENT AGENCIES (NASDA), WE ARE INVOLVED IN A WIDE VARIETY OF COOPERATIVE VENTURES UNDER A PILOT PROGRAM WITH SEVEN STATES. ACCOMPLISHMENTS RANGE FROM A PLANNED CO-LOCATION OF OFFICES IN HARTFORD, CONNECTICUT TO SHARING OF DATA BASES WITH NEW YORK'S STATE DEPARTMENT OF COMMERCE. WE ALSO CO-SPONSOR INTERNATIONAL TRADE CONFERENCES, PROVIDE PLANNING AND OVERSEAS LOGISTICAL SUPPORT TO STATE AND INDUSTRY-ORGANIZED GOVERNMENT APPROVED TRADE MISSIONS, PUBLISH JOINT NEWSLETTERS, AND SUPPORT THE STATE AGENDA FOR EXPORTS (SAFE) PROGRAM, A STATE-LEGISLATED EXPORT FINANCING PROGRAM.

OVER THE YEARS, A NUMBER OF COOPERATIVE ACTIVITIES HAVE BEEN DEVELOPED BETWEEN COMMERCE AND THE SBA. THIS COOPERATION EXISTS AT BOTH HEADQUARTERS LEVEL AND IN THE FIELD. IT IS COMMON FOR COMMERCE AND THE SBA TO JOINTLY SPONSOR TRADE PROMOTION EVENTS AND SUPPORT EACH OTHER THROUGH REFERRALS, JOINT NEWSLETTER PUBLICATIONS AND OTHER COOPERATIVE ACTIVITIES.

MOST ITA AND SBA DISTRICT OFFICES JOINTLY SPONSOR SMALL BUSINESS EXPORT SEMINARS. AS AN EXAMPLE, THE DEPARTMENT OF COMMERCE OFFICE IN BALTIMORE HAS WORKED WITH THE SBA OVER THE PAST TWO YEARS ON A SERIES OF EXPORT SEMINARS. THE SBA AND OTHER MULTIPLIER ORGANIZATIONS IN THE STATE FUNDED THESE SEMINARS WHILE COMMERCE SUPPLIED SOME OF THE SPEAKERS.

SBA AND ITA DISTRICT OFFICES REFER COMPANIES TO EACH OTHER AS APPROPRIATE. SBA COUNSELS SOME NEW-TO-EXPORT SMALL BUSINESSES ON PROBLEMS AND OPPORTUNITIES IMPLICIT IN INTERNATIONAL TRADE AND PREPARES THEM TO BENEFIT FROM MORE SPECIFIC PROGRAMS AND INTENSIVE ASSISTANCE AVAILABLE FROM ITA. ITA ACTS AS A REFERRAL SOURCE FOR SBA'S EXPORT FINANCING PROGRAM. FOR EXAMPLE, OUR PITTSBURGH DISTRICT OFFICE MADE REFERRALS TO SBA FOR PRE-EXPORT FINANCING WHICH RESULTED IN LOANS FOR SUCCESSFULL TRANSACTIONS TOTALING $3,675,000.

MANY OF OUR DISTRICT OFFICES HAVE COOPERATIVE RELATIONSHIPS WITH THE SBA/SCORE PROGRAM. IN LOS ANGELES, FOR EXAMPLE, OUR DISTRICT OFFICE USES SBA/SCORE VOLUNTEERS FOR INITIAL COUNSELLING FOR NEW TO EXPORT FIRMS, TO SCREEN THEIR POTENTIAL, ALLOWING OUR RESOURCES TO BE CONCENTRATED ON THOSE WHO ARE TRULY INTERESTED IN AND POSITIONED TO BECOME SUCCESSFUL EXPORTERS.

SOME ITA DISTRICT OFFICES AND SBA OFFICES ARE BEGINNING TO PUBLISH JOINT NEWSLETTERS. PORTLAND, OREGON AND COLUMBIA, SOUTH CAROLINA ARE EXAMPLES.

WITH SBA'S ASSISTANCE, ITA'S MATCHMAKER EVENTS HAVE BEEN VERY SUCCESSFUL. THESE EVENTS ARE DESIGNED TO PUT U.S. EXPORTERS IN TOUCH WITH FOREIGN IMPORTERS. THE LAST MATCHMAKER HELD IN LONDON ATTRACTED 500 SELECTED BRITISH BUSINESS REPRESENTATIVES TO MEET THE U.S. PARTICIPANTS. EARLY RESULTS SHOWED 21 REPRESENTATION/AGENCY AGREEMENTS WERE SIGNED, 8 LICENSING AGREEMENTS WERE NEGOTIATED, 10 JOINT VENTURE PARTNERS WERE IDENTIFIED AND $700,000 IN EQUIPMENT WAS SOLD OFF-THE-FLOOR. ANNUAL SALES OF $6 MILLION ARE FORECAST.

COOPERATION BETWEEN COMMERCE AND THE SBA WILL INCREASE UNDER THE RECENTLY SIGNED MEMORANDUM OF UNDERSTANDING. THE MOU REQUIRES AND ESTABLISHES RESPONSIBILITIES FOR UNDERTAKING INITIATIVES, COOPERATIVE PLANNING, TRAINING AND ORIENTATION PROGRAMS, PROMOTION AND RECRUITMENT ACTIVITIES AND PROGRAM MONITORING. EACH DISTRICT OFFICE DIRECTOR AND REGIONAL MANAGING

DIRECTOR WILL BE RESPONSIBLE FOR INVITING COMMENT ON AND COORDINATING ACTIVITIES DEFINED BY THEIR ANNUAL WORK PLANS. FOR THE DEPARTMENT OF COMMERCE/ITA, THE DEPUTY ASSISTANT SECRETARY FOR DOMESTIC OPERATIONS, US&FCS, WILL HAVE THE JOINT COORDINATION RESPONSIBILITY. FOR THE SBA, THE ASSOCIATE DEPUTY ADMINISTRATOR FOR SPECIAL PROGRAMS WILL HAVE THE JOINT COORDINATION RESPONSIBILITY. WE ARE EXCITED ABOUT STRENGTHENING OUR RELATIONSHIP UNDER THIS MOU AND LOOK FORWARD TO ITS IMPLEMENTATION. FOR THE RECORD, I AM INCLUDING A COPY OF THIS AGREEMENT.

COMMENTS ON PROPOSED TRADE LEGISLATION

I WOULD LIKE TO COMMENT ON SOME PROVISIONS OF H.R. 1854, THE SMALL BUSINESS TRADE COMPETITIVENESS AND INNOVATION ACT, THAT RELATE TO PROGRAMS ADMINISTERED BY ITA.

THE DEPARTMENT OF COMMERCE HAS THE LEAD ROLE IN PROMOTING THE INTERNATIONAL TRADE OF THE UNITED STATES AND BROADENING OUR EXPORT BASE. WE WELCOME THE INVOLVEMENT AND SUPPORT OF SBA OFFICES. THE RELATIONSHIP WE HAVE DEVELOPED AND CONTINUE TO NURTURE IS POSITIVE. BOTH AGENCIES HAVE MADE A STRENUOUS EFFORT TO ENSURE THAT INITIATIVES UNDERTAKEN ARE SUPPORTIVE AND NOT DUPLICATIVE. THE COOPERATIVE RELATIONSHIP SBA AND COMMERCE SHOULD HAVE IN CARRYING OUT OUR RESPONSIBILITIES IS BEST DEFINED BY THE EXISTING MOU. IN OUR VIEW, H.R. 1854 IS DUPLICATIVE AND NOT REQUIRED.

- SPECIFICALLY, H.R. 1854 APPEARS TO DIRECT THE SBA TO DUPLICATE EXPORT PROMOTION ACTIVITIES WHICH COMMERCE IS MANDATED TO PERFORM AND IS PERFORMING. ACCORDING TO THE SMALL BUSINESS DEVELOPMENT ACT OF 1976, SBA SHOULD NOT DUPLICATE THE ACTIVITIES OF ANY OTHER FEDERAL AGENCY.

- LANGUAGE IN SECTION 6 (b), ATTACHED, CREATES NEW AREAS OF ACTIVITIES FOR THE SBDC'S BY REQUIRING THEM TO IDENTIFY AND DEVELOP POTENTIAL EXPORT MARKETS, FACILITATE EXPORT TRANSACTIONS, DEVELOP LINKS BETWEEN U.S. SMALL FIRMS AND PRESCREENED FOREIGN BUYERS. ONCE AGAIN, THESE RESPONSIBILITIES WOULD DUPLICATE WHAT ITA CURRENTLY DOES. ALTHOUGH SOME SBDC'S HAVE PROVIDED ASSISTANCE TO POTENTIAL EXPORTERS, WE HAVE FOUND THAT MOST LACK THE CAPABILITY TO PROVIDE ASSISTANCE FOR FIRMS WISHING TO EXPORT. WE OPPOSE MANDATING THIS ROLE FOR THE SBDC'S.

- LANGUAGE IN SECTION (6)(d), ATTACHED, DUPLICATES THE DEPARTMENT OF COMMERCE'S FEDERAL/STATE INITIATIVE BY CREATING A NEW ACTIVITY FOR THE SBDC'S IN WHICH WE ARE CURRENTLY ENGAGED. WE OPPOSE MANDATING THIS ROLE FOR THE SBDC'S.

IN CLOSING, THE SMALL BUSINESS ADMINISTRATION IS CURRENTLY, AND APPROPRIATELY, INVOLVED IN PROMOTING EXPORTS OF SMALL BUSINESSES IN THE U.S. WE WELCOME THEIR COOPERATIVE AND SUPPORTIVE INVOLVEMENT IN DISTRIBUTING INFORMATION ON EXPORTING TO THE KEY SECTOR OF OUR MUTUAL CONSTITUENCY, THE SMALL BUSINESS COMMUNITY. OUR JOINT COOPERATION HAS BEEN POSITIVE. AS EVIDENCED BY THE MEMORANDUM OF UNDERSTANDING, BOTH AGENCIES RECOGNIZE THE VALUE OF THIS RELATIONSHIP AND ARE INTERESTED IN STRENGTHENING IT AND MAINTAINING CLEAR LINES OF RESPONSIBILITY. I BELIEVE THAT THE MEMORANDUM OF UNDERSTANDING, SIGNED MARCH 19, 1987, IS SUFFICIENT BASIS FOR SUCH COOPERATION.

I APPRECIATE HAVING THE OPPORTUNITY TO TALK WITH YOU TODAY, AND WELCOME YOUR QUESTIONS AND COMMENTS.

ing subparagraphs (C) through (H) as subparagraphs (F) through (K), respectively:

"(C) actively assisting small businesses in cooperation with the Department of Commerce and other relevant Federal agencies, in exporting by identifying and developing potential export markets, facilitating export transactions, developing linkages between United States small business firms and prescreened foreign buyers, assisting small businesses to participate in international trade shows, assisting small businesses in obtaining export financing, and facilitating the development or reorientation of marketing and production strategies; where appropriate, the Small Business Development Center may work in cooperation with the State to establish a State international trade center for these purposes;

"(D) assisting small businesses in developing and implementing marketing and production strategies that will enable them to better compete within the domestic market;

"(E) developing a program in conjunction with the Export-Import Bank and local and regional Administration offices that will enable Small Business Development Centers to serve as a distribution network and service delivery mechanism for Bank financing programs, ~~including assisting in the processing of export loan applications, where appropriate, and other~~

information between Small Business Development Centers or between existing Small Business Development Centers and program applicants."; and

(7) by inserting the following new subsection (d) and redesignating subsections (d) through (k) as subsections (e) through (l), respectively:

"(d) Where appropriate, the Small Business Development Centers shall work in conjunction with the relevant State agency to develop a comprehensive plan for enhancing the export potential of small businesses located within the State. This plan may involve the cofunding and staffing of a State Office of International Trade within the State Small Business Development Center, using joint State and Federal funding, and any other appropriate measures directed at improving the export performance of small businesses within the State.".

CAPITAL FORMATION

SEC. 7. (a) Section 7 of the Small Business Act (15 U.S.C. 636) is amended as follows:

(1) by striking "and" at the end of clause (i) of subsection (a)(2)(B) and by adding at the end of clause (ii) the following new clauses:

"(iii) not less than 85 per centum of the financing outstanding at the time of disbursement if such financing is an industrial

MEMORANDUM OF UNDERSTANDING

BETWEEN

THE U.S. DEPARTMENT OF COMMERCE

AND

THE SMALL BUSINESS ADMINISTRATION

ON COOPERATION IN SUPPORT OF
INTERNATIONAL TRADE

AGREEMENT

The U.S. Department of Commerce and the U.S. Small Business Administration agree to enter into a cooperative relationship designed to assist small business firms to enter into and develop export markets and to coordinate the delivery of export promotion and other export-related services to such firms. Each organization will work together in a cooperative spirit at all levels to contribute to this effort according to the resources and talents each possesses.

STATEMENT
OF
PURPOSE

It is the purpose of this agreement to define and allocate the responsibilities and outreach efforts of the principal parties regarding small business export development activity along lines which match each organization's expertise, experience and legislative mandate. The principal intentions of this agreement will be to 1) avoid duplication of effort between the two agencies in the delivery of U.S. Government export promotion to the small business community; 2) maximize the delivery of export services to such firms in the most cost effective manner possible.

INTRODUCTION

The statutory obligations of the Department of Commerce are to foster, promote and develop the foreign and domestic commerce of the United States. The Small Business Administration is required by the Small Business Act of 1953 to aid, counsel, assist and protect the interests of small business concerns.

Functional responsibility to promote the international trade of the United States and to assist U.S. business in its export operations domestically and abroad is vested in the International Trade Administration (ITA) of the Department of Commerce. The principal objective of ITA is to increase and promote U.S. exports, thus contributing to the Nation's economic growth and helping to achieve our national trade development goals. ITA advances this purpose by working with other Government agencies and international organizations to create a climate in which international trade and investment can flourish, and by working to make U.S. industry more export conscious.

By legislation, the Small Business Administration (SBA) is required to apply a portion of its resources to promote export opportunities for small business goods and services. In cooperation with ITA, SBA provides export information and encourages small business participation in trade fairs, shows and missions. To this end, SBA counsels small businesses on international marketing to acquaint them with problems and opportunities implicit in international trade and to prepare them to benefit from more specific programs and intensive assistance available from ITA's District Offices and private sector service organizations in the international field.

Over the years and particularly under the Commerce/SBA agreement of July 1982, a number of cooperative activities were developed between SBA's Office of International Trade and ITA's U.S. and Foreign Commercial Service, and in the field between SBA's Field Offices and the District Offices of US&FCS.

The purpose of this Agreement is to provide for an increase in such cooperation between the two agencies to improve the delivery of U.S. Government small business exporter programs while avoiding duplication of effort. The initiatives shown below outline means for efficient cooperation between ITA and SBA, as well as the responsibilities of each organization under this Agreement.

ITA - SBA JOINT UNDERTAKINGS

1. Representatives of ITA and SBA in Washington D.C. will meet at least annually to jointly plan and quarterly to review efforts undertaken pursuant to this agreement.

2. The Director of each US&FCS District Office will meet at least annually with the Director(s) of the SBA District Office(s) in their territory or region. The purpose of the meeting will be to plan and coordinate trade promotion activities between each of the offices on a yearly basis. These meetings will take place prior to completion of the planning cycle in order that both parties have the opportunity to comment and make suggestions prior to the finalization of the plans of each Agency concerning local export promotion activities. Periodic meetings will subsequently take place to ensure that such activities are effectively implemented . Any issues or problems that cannot be resolved at the local level will jointly be referred to each agency Regional Headquarters.

3. Each Regional Managing Director (RMD) for US&FCS will meet periodically (at least once a year) with each SBA Regional Administrator and SBA Regional International Trade Officer located in the RMD regional territory. The purpose will be to assess coordination activities and joint program efforts between the two agencies in each territory. Any issues or problems that cannot be resolved at the local level will jointly be referred to each agency's regional headquarters.

4. US&FCS and SBA will initiate training and orientation programs for personnel in each agency in the general areas of business development, export promotion and SBA and Eximbank trade finance programs.

5. Each agency will appoint a specific official at the headquarters level, and in each field office or district office, to provide coordination, monitoring and communication links for all projects and activities pursuant to this Memorandum of Understanding.

6. Each agency headquarters and field office will provide its counterpart office with current literature and other program information, including training materials such as films, slides and manuals on a regular and ongoing basis.

7. SBA and US&FCS field and district offices will jointly co-sponsor and conduct regular seminars/workshops for current or prospective small exporters as appropriate. These programs will operate on a participant user fee basis.

8. SBA and ITA will promote the participation of small business firms in international trade shows and trade missions. ITA will recommend to SBA headquarters export promotion events such as trade shows, fairs, missions and other conferences for which ITA would like SBA assistance in planning, recruiting and other support. SBA may provide funding support, consistent with its legal authority, to assist a limited number of small businesses in such events. ITA and SBA headquarters and US&FCS and SBA offices will jointly identify, recruit and counsel small business participants in such jointly-sponsored events. Final approval of firms to receive SBA financial support, if any, will be made by SBA headquarters.

   SBA and ITA will work together, using their respective field networks, to stimulate organization by the private sector of export promotion events such as trade missions, shows, and fairs. SBA, through its field network, will continuously seek to expand the private sector resource base available to support SBA and ITA international trade activities.

9. SBA and US&FCS Field and District Offices will cooperate, through the Office of Business Development, in utilizing SCORE/ACE members for small business export counseling; SBA Small Business Development Centers (SBDC) and Small Business Institutes (SBI) will jointly be encouraged to develop education and training programs for exporters.

10. The Under Secretary for ITA will recommend that the chairperson of the International Trade Committee of the Small Business Administration National Advisory Council (NAC), or one other member of the NAC, be appointed to the Small Business Committee of the Industry Sector Advisory Council on Small and Minority Business (ISAC-14). The NAC nominee recommended for ISAC membership should be from the manufacturing sector and have international business experience. Concurrently, the Administrator of the SBA will appoint the chairperson of ISAC-14, or a designated alternate, to the SBA National Advisory Council.

11. ITA and SBA will work together, using each Agency's appropriate resources, to identify and assist small businesses having export potential. Guidelines to accomplish this will be included in each ITA and SBA field and district office work plan.

SBA INITIATIVES

SBA Field and Regional Offices will:

1. Provide basic export promotion information and other assistance to prospective and current exporters through its cooperating resources to complement such assistance being given by US&FCS field offices and other local organizations.

2. Refer to US&FCS offices such firms and individuals seeking or in need of in-depth specific marketing and country information, technical advice or assistance on export-related regulatory areas such as U.S. export control matters and other counseling available through ITA.

3. Provide qualified personnel to participate in ITA seminars, conferences and other export development programs; advise ITA district offices regarding suitable forums such as conferences, seminars and courses where exporting information could be appropriately disseminated.

4. Provide coverage of ITA programs and services in appropriate loan counseling sessions and SBA co-sponsored training programs and literature.

5. Assist in identification of small business exporters or potential exporters for participation in appropriate ITA Foreign Buyer events and overseas trade promotion fairs, missions and catalogue shows.

6. Encourage and assist small business firms to seek trade and investment opportunities from Caribbean countries active in the Caribbean Basin Initiative (CBI) program.

7. Consistent with the applicable legal requirements as to the confidential treatment of information, provide to ITA small business statistical data compiled by SBA or data to which SBA otherwise has access.

8. Each SBA District Director will appoint the chairperson of each US&FCS District Export Council or his/her designee as a member of the SBA Regional Advisory Council.

ITA INITIATIVES

The U.S. and Foreign Commercial Service will:

1. Provide personnel in SBA field offices with basic training on exporting techniques and the services and programs available from ITA. The purpose of the training will be to give SBA the ability to service firms and individuals with appropriate export assistance. Training will be made available on a recurrent basis and for any newly-hired SBA field professionals.

2. Participate in training of SBA Loan Officers to assist them in evaluating the suitability of export development transactions and activities in which SBA guarantee programs may be used; also provide personnel consultation with loan officers when actual transactions are involved.

3. Refer appropriate firms and individuals to SBA Field offices for general assistance and advice and for participation in entry level workshops or seminars on exporting and other business management subjects.

4. Provide SBA offices with advance schedules of Commerce export promotion events and any other activity that may be suitable for SBA or small business firm participation.

5. Provide coverage of SBA programs and services in appropriate literature and promotional material.

6. Provide coverage of SBA programs and services to all multipliers, especially banks and other financial institutions.

7. Notify SBA headquarters and Field Offices of foreign buyers and Foreign Commercial officer visits as may be appropriate.

8. Consistent with applicable legal requirements as to the confidential treatment of information, provide to SBA selected international trade-related statistical data, compiled by the Department, to which ITA otherwise has access.

9. The US&FCS District Director will nominate each SBA District Director or his/her designee as a member of the District Export Council.

JOINT COORDINATION AND IMPLEMENTATION RESPONSIBILITY

For the Department of Commerce/ITA, the Deputy Assistant Secretary for Domestic Operations, US&FCS shall have joint coordination responsibility. For the Small Business Administration, the Associate Deputy Administrator for Special Programs shall have joint coordination responsibility.

Malcolm Baldrige

Secretary of Commerce,
U.S. Department of Commerce

Administrator,
U.S. Small Business
Administration

March 19, 1987

Date

STATE	DISTRICT OFFICE	DATE	LOCATION	PURPOSE/THEME
REGION I				
Connecticut	Hartford	4/7/87	Stamford	Trade Remedies
		4/8/87	Hartford	Marketing in China
		4/27/87	New York, NY	International Marketing
		4/29/87	Greenwich, CT	UN Treaty on Int'l Goods
		4/30/87	Stamford, CT	World Trade Week Dinner
		May 1987	Hartford	India
		5/12/87	Greenwich, CT	Iberia in the EC
		5/27/87	Hartford	World Economic Issues Affecting Latin Countries
		6/9/87	Farmington, CT	Intellectual Property Rights
		9/17/87	Danbury, CT	Harmonized System
Maine	Boston	5/87	Augusta	Maine Products for Export & Int'l Marketing
	Boston	Summer 87	Bangor	CBI Seminar
	Boston	Summer 87	Portland	Marketing in France
Massachusetts	Boston	4/2/87	Needham	Export Marketing
		4/9/87	Boston	Inter-American Development Bank
		4/9/87	Boston	DEC Meeting
		4/10/87	Boston	Symposium on Competitiveness

		4/21/87	Quincy	Export Financing & Export Control
		4/28/87	Quincy	Export Marketing & Documentation
		5/87	Brockton	Export Marketing as Part of Larger Theme-Competitiveness
		5/6/87	Waltham	Export Licensing
		5/13/87	Waltham	Export Marketing
		5/20/87	Waltham	Export Financing
		5/27/87	Waltham	Export Documentation
		5/87	Boston	World Trade Week & Massachusetts
		6/87	Boston	Introduction to Exporting
		7/87	Boston	Introduction to Exporting
New Hampshire	Boston	5/19/87	Manchester	World Trade Expo
New York	New York	4/87	Pleasantville	Basic Exporting
	New York	4/87	Rockland County	Basic Exporting
	New York	4/87	New York	Export Control
	New York	4/87	Commack	Introduction to Exporting
	New York	4/87	New York	Basic Exporting
	New York	4/87	New York	Export Financing for NTE Firms
	New York	4/87	New York	Introduction to DOC Programs & Services
	New York	4/18/87	Greenvale, NY	Mediterranean & Middle East Politic of Survival

Buffalo	4/20/87	Buffalo	Pre-Business Workshop
Buffalo	4/23/87	Rochester	Immigration/Employee Verification
Buffalo	4/24/87	Buffalo	Employment & Training Private Industry Council
Buffalo	4/28/87	Rochester	Fundamentals of Exporting
Buffalo	4/30/87	Buffalo	Int'l Marketing
Buffalo	4/30/87	Rochester	Fundamentals of Exporting
New York	5/87	White Plains	World Trade Week
New York	5/87	Rockland County	Economic Impact on World Exports
New York	5/87	Nassau County	World Trade Week
New York	5/87	Brooklyn	Basics of Countertrade
Buffalo	5/7/87	Rochester	Annual Conference, Transportation Club
Buffalo	5/14/87	Rochester	Chamber's 100th Anniversary Dinner
Buffalo	5/15/87	Buffalo	Land & Facilities Buffalo Area C of C
Buffalo	5/18/87	Buffalo	Pre-Business Workshop
Buffalo	5/21/87	Syracuse	31st Annual Tri-Cities Conference
Buffalo	5/29/87	Binghamton	ETC and FSC
Buffalo	6/15/87	Buffalo	Pre-Business Workshop
Buffalo	6/17/87	Rochester	Int'l Marketing
Buffalo	6/19/87	Buffalo	Financing Erie County Economic Development Agency

	New York	6/22/87	Newburgh	Federal Procurement Conf./Rep. Fish
	New York	6/87	White Plains	Countertrade
	New York	6/87	Orange County	Export Financing
	New York	6/87	New York	Basic Exporting
	New York	6/87	New York	Export Financing for NTE Firms
	New York	6/87	New York	CBI
	New York	6/87	New York	Basic Exporting
Rhode Island	Boston	5/21/87	Bryant College	World Trade Day Conference
	Boston	5/87	Smithfield	Importance of Exporting
	Boston	6/87	Providence	Export Marketing
Vermont	Boston	5/11/87	Rutland	International Banking & Finance
	Boston	5/87	Montepelier	Selling International
REGION II				
Delaware	Philadelphia	Nothing scheduled		
District of Columbia	Baltimore	4/9/87	Washington, D.C.	Women Business Owners MEGA Market East
		6/23-26	Washington, D.C.	Foreign Buyer Prog.-Architectural Engr. Exhibition
		6/29-7/1/87	Washington, D.C.	Int'l Trade & Computerization Conf. and Exhibition
Maryland	Baltimore	4/1/87	Largo	Getting into Export
		4/8/87	Largo	CBI
		4/9/87	Wheaton	Commerce Assistance in Exporting

		4/24/87	Bethesda	SMITA Monthly Mtg
		4/29/87	Baltimore	Maryland Port Administration: Goals & Programs to Serve Maryland Business
		5/6/87	Gaithersburg	Expanding or Entering Int'l Markets
		5/12/87	Gaithersburg	Letters of Credit & Export Financing
		5/14/87	Baltimore	Distribution Seminar
		5/15/87	Baltimore	Doing Business with Japan
		5/20/87	Gaithersburg	Ocean & Air Freight Documentation
		5/21/87	Bethesda	SMITA Monthly Seminar
		5/27/87	Greenbelt	U.S. Govt Export Licensing
		6/3/87	Largo	Basics of Exporting
		6/10/87	Largo	Importing and the CBI
		6/17/87	Baltimore	Business Through the World Bank/Opportunities for U.S. Business
		6/25-26	Baltimore	Region II Conf
New Jersey	Trenton	6/3/87	New Brunswick	Distribution to Latin America
		6/15/87	Paramus	Doing Business in the U.K.
		6/16/87	Parsippany	Current Trends in Overseas Markets
		6/22/87	Mercer	Finding Overseas Representation
		6/22/87	Cherry Hill	Marketing in the Two Chinas

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Pittsburgh	4/23/87	Pittsburgh	Developing Strategies for Successful Int'l Business
Pittsburgh	4/27/87	[illegible]	Mission Briefing: PA Hi-Tech Mission
Philadelphia	4/87	Lewisburg	Overseas Promotion/ Product Literature
Philadelphia	4/87	Willow Grove	Agent Distributor Contracts
Philadelphia	4/87	Lancaster	Int'l Marketing
Philadelphia	4/87	York	Int'l Marketing
Philadelphia	4/87	Wilkes-Barre	Basic Exporting
Philadelphia	4/8/87	Valley Forge	Direct Mail Overseas
Pittsburgh	5/14/87	Pittsburgh	Restrictive Practices Boycotts: Risk to Your Company
Pittsburgh	5/17-18	Hershey	PA Int'l Trade Conf
Pittsburgh	5/21/87	Erie	Successful Business Strategies for the Japanese Market
Philadelphia	5/87	King of Prussia	Intellectual Property Protection
Philadelphia	5/87	Bethlehem	Int'l Trade
Philadelphia	5/87	Horsham	Canada
Philadelphia	6/87	Reading	Int'l Marketing
Philadelphia	6/87	Lancaster	Int'l Marketing
Philadelphia	6/87	York	Int'l Marketing
Pittsburgh	6/16/87	Pittsburgh	Mechanics of Exporting
Pittsburgh	7/21/87	Pittsburgh	Mechanics of Exporting

	Pittsburgh	3/18/87	Pittsburgh	Mechanics of Exporting
	Pittsburgh	9/15/87	Pittsburgh	Mechanics of Exporting
REGION III				
Kentucky	Louisville	4/21/87	Fort Mitchell	Federal Procurement Conference/Sen. Ford, McConnell/Reps. Luken, Gradison, Bunning
		5/18-19/87	Louisville	World Trade Week Conference
North Carolina	Greensboro	4/8/87	Charlotte	Canadian Seminar
		4/21/87	Greensboro	Increasing Sales with New Markets
		4/25/87	High Point	Exporting for Profit
		4/29-5/1	ResTriPrk	1987 Annual Mtg of NC World Trade Assn
		5/15/87	Asheville	Selling in Foreign Markets
		6/19/87	Greensboro	Federal Procurement Conference/Rep. Coble
		6/18-20/87	Myrtle Beach, SC	20th Annual Purch. Mgmt Assn of Virginia & Carolinas
South Carolina	Columbia	4/6/87	Columbia	Mo. Staff Mtg w/SC State Dev. Board
		4/7/87	Clemson	Semi-Annual Languages & Int'l Trade Council Meeting
		4/7/87	Clemson	Int'l Trade Round-table
		4/7/87	Greenville	Taping of "PM Magazine" segment, "Do's & Taboos Around the World"

		4/8/87	Greenville	Getting to Know Your Overseas Customer
		5/12/87	Columbia	Mo. Staff Mtg w/SC State Dev. Board
		5/19-21/87	Charleston	14th Annual S.C. Trade Conference
		6/9/87	Columbia	Mo. Staff Mtg w/SC State Dev. Board
		6/18-20/87	Myrtle Beach	Purchasing Managers Convention
		To be Determined	Columbia	DEC Meeting
Tennessee	Nashville	4/9/87	Chattanooga	Export Marketing
		4/9/87	Memphis	Export Marketing
		4/14/87	Memphis	Int'l Trade
		4/23/87	Nashville	Export Marketing
		5/87	Memphis	Export Marketing China
		5/87	Nashville	Export Marketing
		5/12/87	Nashville	Tennessee World Trade Conference
		5/14/87	Memphis	Export Marketing
		5/19/87	Memphis	Int'l Trade
		5/28/87	Nashville	Export Marketing
		6/11/87	Chattanooga	Export Marketing
		6/11/87	Memphis	Export Markting
		6/16/87	Memphis	Int'l Trade
		6/25/87	Nashville	Export Marketing
		7/9/87	Chattanooga	Export Marketing

		7/9/87	Memphis	Export Marketing
		7/21/87	Memphis	Int'l Trade
		7/23/87	Nashville	Export Marketing
		8/9-17/87	Memphis	Cross Cultural Exchange
		8/13/87	Memphis	Export Marketing
		8/18/87	Memphis	Int'l Trade
		8/27/87	Nashville	Export Marketing
		9/10/87	Chattanooga	Export Marketing
		9/15/87	Memphis	Int'l Trade
		9/24/87	Nashville	Export Marketing
Virginia	Richmond	4/7/87	Charlottesville	Int'l Banking
		4/30/87	Springfield	Marketing Technical Services
		5/6/87	Arlington	Export Computer Software
		5/87	Richmond	International Agent/ Distributor Agreements
		5/87	Norfolk	Introduction to Export Marketing
		5/14/87	Springfield	East-West Trade
		5/20/87	Richmond	Va. World Trade Day Luncheon
		5/22/87	Alexandria	World Trade Luncheon
		5/22/87	McLean	Export Licensing and Control
		9/8/87	Annandale	Basic Export Marketing

		9/14/87	Williamsburg	Export Development & Documentation
		9/15/87	Annandale	Export Documentation
		9/15/87	Springfield	Selecting Best Mkts for Medical Equipment
		9/21/87	Williamsburg	Export Licensing Process & Export Traffic Documentation
		9/22/87	Annandale	Export Financing
		9/22/87	Springfield	Selecting Best Mkts for Security & Safety Equipment
		9/28/87	Williamsburg	Export Financing & Other Bank Support Services
		9/29/87	Springfield	Selecting Best Mkts for Computers and Peripherals
		9/30/87	Crystal City	Federal Procurement Conference/Sen. Warner
West Virginia	Charleston	4/16/87	Charleston	Federal Procurement Conference/Sen. Rockefeller
		4/28/87	Martinsburg	Export Marketing
		5/21/87	Charleston	World Trade Week Seminar & Luncheon
		5/21/87	Charleston	W.Va. DEC Meeting
REGION IV				
Alabama	Birmingham	4/14/87	Montgomery	Federal Procurement Conference/Rep. Dickinson
		4/30-5/1	Mobile	Southeastern Int'l Trade Conference

		5/14-15	Tuscaloosa	Alabama Export Council World Trade Day Dinner
		6/11/87	Birmingham	U.S.-Israel Business Opportunities
		6/12/87	Mobile	Federal Procurement Conf./Rep. Callahan
		9/24/87	Birmingham	International Business Forum: Brazil, Argentina & Colombia
Florida	Miami	5/87	Jamaica/ Cayman Is.	Fla. Business Opportunities SOGA TM
		6/87	Ft. Lauderdale	Governor's World Trade Conference
		9/87	Ft. Lauderdale	High-Tech Conf.
Georgia	Atlanta	4/2/87	Atlanta	Opportunities for Int'l. Business
	Savannah	4/28-30	Brunswick	Int'l Trade
	Savannah	8/87	Savannah	Doing Business with Mexico
	Savannah	9/87	Savannah	Georgia Foreign Trade
	Atlanta	10/2/87	Atlanta	Federal Procurement Conference/Rep. Swindle
Mississippi	Jackson	4/2/87	Jackson	How Economic Diplomacy Affects Int'l Energy Issues
		5/21/87	Jackson	Bi-Annual DEC Mtg
		6/4/87	Jackson	Int'l Trade
		7/2/87	Jackson	Int'l Trade
		8/6/87	Jackson	Int'l Trade
		9/3/87	Jackson	Int'l Trade

Puerto Rico	San Juan	4/23/87	San Juan	SBA Pre-Business Workshop
		5/12/87	San Juan	Exporting Services
		5/21/87	San Juan	SBA Pre-Business Workshop
		6/87	San Juan	SBA Workshop
		7/87	San Juan	Documentation
		7/87	San Juan	SBA Workshop
		8/87	San Juan	Exporting
		8/87	San Juan	SBA Workshop
		9/87	San Juan	Export Seminar
		9/87	San Juan	SBA Workshop
REGION V				
Illinois	Chicago	4/1/87	Champaign	Central Illinois Exporters Assn.
		4/5/87	Chicago	Nat'l Huseware Mfrs Assn. (Foreign Buyer Show)
		4/9-13	Chicago	Chinese Investment Mission, OPIC/DOC
		4/20-24	Chicago	U of Chicago Int'l Forum 7 Workshop
		4/21-23	Chicago	OEA Introductory Course
		4/22/87	Oakbrook	Business Opportunities in India
		4/30-5/2	Chicago	Int'l Small Business Conf. and Expo
		5/18/87	Rockford	Business Development Conf. w/Cong. Lynn Martin

5/19/87	Chicago	World Trade Week Breakfast
5/19/87	Rockford	WTW - T.M. McCarthy, Australian Consulate General
5/19/87	Palatine	Doing Business in Japan, Canada, CBI, EEC
5/20-21	Chicago	World Trade Conference
5/21/87	Chicago	AID Seminar
6/15/87	Chicago	Nat'l Computer Conf. (Foreign Buyer Show)
9/87	Chicago	Reverse Match-maker on Japan
10/19/87	Chicago	Asian Development Bank Seminar

Indiana	Indianapolis	4/3/87	McCormick Creek	Indiana Consortium for Int'l Programs
		4/8/87	Indianapolis	Export Development Process Seminar
		4/16/87	Scottsburg	Business Development Conference
		4/21/87	Indianapolis	Doing Business with Korea
		5/1-3087	Evansville	Tri-State World Trade Council World Trade Week Program
		5/13/87	Indianapolis	Export Documentation
		5/27-28	Indianapolis	Japan Auto Export Awareness Conference
		6/11/87	Indianapolis	Export Development
		6/24/87	Indianapolis	Export Financing
		7/17-19/87	Indianapolis	Indiana Black Expo
		7/29/87	Indianapolis	Intro to Export Documentation
		8/1/87	Indianapolis	Hispanic Fiesta
Michigan	Detroit	4/87	Detroit	CBI Update
		4/87	Detroit	Intro to Exporting
		4/4/87	Benton Harbor	Passport to Profit
		4/16/87	Livonia	OEA Antiboycott Briefing
		4/22/87	Kalamazoo	SBA/SCORE
		5/87	Detroit	Software Plus - EEC
		5/87	Detroit	Detroit World Trade Week
		5/87	Detroit	Korea World Trade Week

		5/2-13/87	Detroit	Technology 87
		5/87	Detroit	Intro to Exporting
		5/15/87	Midland	Federal Procurement Conference/Rep. Schuette
		6/87	Detroit	Intro to Exporting
		6/87	Detroit	Exporting for Robotics Firms
		7/87	Detroit	Intro to Exporting
		9/87	Detroit	Intro to Exporting
		9/87	Detroit	Commercial News-Bugs, Bytes & Glitches
Minnesota	Minneapolis	4/20-23/87	Minneapolis	Finance & Procurement
Ohio	Cleveland	4/2/87	Cleveland	Doing Business with the PRC
	Cleveland	4/2-3/87	Cleveland	Caribbean Connection III Matchmaker Mission
	Cleveland	4/3-5/87	Cleveland	Canada/U.S. Law Institute Conf.
	Cleveland	4/6/87	Cleveland	Ohio Foreign Comm. Assn. Luncheon
	Cleveland	4/7-9	Toledo	Toledo Business Show
	Cleveland	4/8/87	Cleveland	Marketing in the Far East
	Cincinnati	4/15/87	Cincinnati	Export Admin. Regulations
	Cincinnati	4/16/87	Dayton	How to Sell Internationally
	Cleveland	4/22/87	Cleveland	Latin America
	Cincinnati	4/22/87	Dayton	Basic Export Admin Regs. Workshop

Cleveland	4/23/87	Windsor	Intro-Export Canada
Cincinnati	4/29/87	Columbus	Annual Governor's "E" Award Program
Cleveland	5/7/87	Cleveland	Overview of Australia New Zealand
Cleveland	5/13/87	Cleveland	Export Licensing
Cleveland	5/14/87	Cleveland	Annual World Trade Conference
Cincinnati	5/19/87	Dayton	World Trade Week Dinner
Cincinnati	5/20/87	Columbus	SBA Exporter of the Year Program
Cincinnati	5/20/87	Dayton	Doing Business in Australia
Cleveland	5/20/87	Toledo	Toledo World Trade Conference
Cleveland	5/21/87	Cleveland	HDIC/Rotterdam Distriport Mission
Cincinnati	5/21/87	Cincinnati	Doing Business in Japan
Cincinnati	5/21/87	Cincinnati	So. Ohio DEC Meeting
Cleveland	6/9/87	Mansfield	Federal Procurement Conference/Rep Oxley
Cleveland	6/10/87	Cleveland	Export Financing
Cincinnati	6/10/87	Dayton	Establishing a Foreign Distributor Network
Cincinnati	6/17/87	Columbus	Doing Business in the Far East
Cleveland	6/17/87	Cleveland	Int'l Marketing
Cincinnati	6/18/87	Cincinnati	So. Ohio DEC Mtg
Cincinnati	7/7/87	Cincinnati	Annual Int'l Outing

	Cincinnati	7/22/87	Columbus	Doing Business in Africa
	Cincinnati	7/23/87	Dayton	So. Ohio DEC Meeting
	Cincinnati	8/12/87	Columbus	Fundamentals of Importing
	Cincinnati	9/21/87	Cincinnati	So. Ohio DEC Mtg
	Cincinnati	9/9/87	Columbus	Int'l Trade Fair
Wisconsin	Milwaukee	4/7/87	Milwaukee	Int'l Trade Issue Update
		4/5/87	Madison	Federal Procurement Conference/Rep. Kastenmeier
REGION VI				
Iowa	Des Moines	4/1/87	Ottumwa	Intermediate Steps to Exporting
		4/2/87	Burlington	Intermediate Steps to Exporting
		4/6-8	Ankeny	Mexico
		4/7/87	Dubuque	Intermediate Steps to Exporting
		4/10/87	Davenport	Intermediate Steps to Exporting
		4/13/87	Ft. Dodge	Intermediate Steps to Exporting
		4/15	Cedar Falls/ Waterloo	Intermediate Steps to Exporting
		4/16/87	Cedar Rapids	Intermediate Steps to Exporting
		4/21/87	Red Oak	Intermediate Steps to Exporting
		4/23/87	Sioux City	Export Trading Companies
		5/18-19	Des Moines	Int'l Exhibits

		5/18/87	Sioux City	Advanced Exporting Seminar
		5/19/87	Des Moines	Advanced Exporting Seminar
		5/19/87	Des Moines	Int'l Traders
		5/20/87	Davenport	Advanced Exporting Seminar
		5/20/87	Davenport	Int'l Trade
		5/21/87	Cedar Rapids	Advanced Exporting Seminar
		5/21/87	Cedar Rapids	Int'l Trade Bureau
		6/87	Des Moines	Governor's Export Conference
Kansas	Kansas City	Nothing Scheduled		
Missouri	St. Louis	4/4/87	St. Louis	Basic Exporting
		4/13/87	St. Louis	Export Profits for Small Business
		4/28/87	Columbia	Basic Exporting
		4/30/87	Sedalia	Basic Exporting
		5/4-5/87	Kansas City	Governor's Conf.
		5/20/87	Collinsville, Illinois	Southwestern Ill. Export Conf.
Nebraska	Omaha	4/15/87	Lincoln	Nebraska Governor's Int'l Trade Conf. and Dinner
		4/16/87	Omaha	Peer Group Seminar
		5/19/87	Omaha	Trade Opportunities in Scandinavian Countries
		6/18/87	Omaha	Peer Group Seminar
		7/7-8/87	Lincoln	Documentary Credit

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		4/15/87	Richardson	Export Documentation and Insurance
		4/21/87	Dallas	U.S.-Japan Trade Negotiations
		4/21/87	Dallas	Intercultural Seminar
		5/21/87	Fort Worth	Either Flag Raising [illegible] Magnetics
		5/27/87	Richardson	Legal Aspects of Int'l Trade

REGION VIII

Arizona	Phoenix	To be supplied		
Colorado	Denver	4/7/87	Colorado Springs	International Financing
		4/9/87	Denver	Trade & Investment in Africa
Idaho	Denver	5/87	Boise	Federal Procurement Conf./Sen. Symms
Montana	Denver	Nothing scheduled		
Nevada	Reno	4/30/87	Seattle	Int'l Agribusiness Trade Show
Utah	S. Lake City	4/2/87	SLC	German Country Seminar
		4/7/87	SLC	Doing Business in China
		4/14/87	SLC	Doing Business in China
		4/22/87	SLC	Basic Export Shipping
		5/11-17	SLC	Utah State Trade Fair Participation: Flanders, Belgium
		5/25-30	SLC	Utah State TM to Korea, Taiwan, China, Hong Kong, Thailand

		5/25-29	SLC	Utah State Travel Promo Mission-Japan
		[illegible]	[illegible]	Federal Procurement Conf./Sen. Garn
Wyoming	Denver	Nothing scheduled		
REGION IX				
Alaska	Anchorage	4/87	Anchorage	Int'l Seminar on Resources
		5/87	Anchorage	Minerals for Export
		6/87	Anchorage	Export of Services
		6/87	Anchorage	State of Alaska World Bank Seminar
California	Los Angeles	4/1/87	Santa Ana	Export Licensing
	S.Francisco	4/3/87	S.Francisco	Bay Area Int'l Trade Coord. Council
	Los Angeles	4/7/87	Los Angeles	So. Cal. Coordinating Council
	Los Angeles	4/8/87	Los Angeles	Brazil-California Trade Assn Installation Dinner
	Los Angeles	4/9/87	Los Angeles	Foreign Investment in Brazil
	Los Angeles	4/10/87	San Pedro	Federal Procurement Conference/Rep. Anderson
	S.Francisco	4/11/87	S.Francisco	Doing Business with the Four Tigers
	Los Angeles	4/15/87	Santa Ana	Export Marketing
	Los Angeles	4/20/87	Anaheim	Women in Business Conf./Sen. Bill Campbell
	S.Francisco	4/23/87	S.Francisco	Computer Licensing
	San Diego	4/24/87	San Diego	Fundamentals of Exporting

S.Francisco	4/28/87	Santa Clara	Export Control
Los Angeles	4/29/87	Los Angeles	Australian Amer. [illegible] C of C BTM
Los Angeles	4/29/87	Los Angeles	Export Marketing
Los Angeles	5/4/87	Walnut	Federal Procurement Conference/Rep. Dreier
Los Angeles	5/5/87	Los Angeles	So. Cal. Coordinating Council
Los Angeles	5/5-6/87	Long Beach	ASEAN Conference
Los Angeles	5/6/87	Santa Ana	Economic Briefing for Foreign Govt Trade Reps/Orange County Ofc of Protocol
Los Angeles	5/7/87	Los Angeles	Canada-California C of C/Amb., Pete Murphy, USTR
Los Angeles	5/7/87	Pasadena	Trade in the PRC
Los Angeles	5/7/87	Newport Beach	Operation Interface-DEA Staff
Los Angeles	5/12/87	Torrance	Export Licensing
Los Angeles	5/13/87	Los Angeles	AFT Pacific Rim Seminar
Los Angeles	5/13/87	Santa Ana	Export Marketing
Los Angeles	13-15	Long Beach	Western Int'l Trade Group Bi-Annual Mtg
Los Angeles	5/15/87	Irvine	Munich Trade Fair Seminar
Los Angeles	5/15/87	Los Anggeles	Commonwealth C of C World Trade Week Event
Los Angeles	5/19/87	Los Angeles	Air Cargo Day
San Diego	5/19/87	San Diego	PRC Trade Fair Seminar

	Los Angeles	5/20-22	Los Angeles	Inter Cargo World Conference - Air Cargo Assn.
	Los Angeles	5/21/87	Los Angeles	Foreign Trade Assn. [illegible]
	Los Angeles	5/22/87	Long Beach	[illegible]
	San Diego	5/22/87	San Diego	Fundamentals of Exporting
	Los Angeles	5/26/87	Los Angeles	Export Marketing
	Los Angeles	5/27/87	Los Angeles	Megamarketplace/ USDOC
	Los Angeles	9/25/87	Garden Grove	Federal Procurement Conference/Rep. Dornan
Hawaii	Honolulu	To be supplied		
Oregon	Portland	4/3/87	Portland	First Friday Seminar
		4/8/87	Eugene	Second Wednesday Seminar
Washington	Seattle	4/23/87	Seattle	Export Trading Company Conference
		5/6/87	Seattle	Export Marketing
		5/13/87	Seattle	Int'l Methods of Payment & Finance
		5/14/87	Seattle	Trading with Germany
		5/19/87	Seattle	Export Documentation and Insurance
		5/20/87	Seattle	Export Controls and Licensing
		6/9-10	Seattle	Export-Import 87

Senator SASSER. Thank you Mr. Secretary. Mr. Administrator, your statement sets out fairly clearly problems which you have with the trade measure, which was reported out of the House Small Business Committee.

Has the Small Business Administration developed any alternative language that the members of this Committee here in the Senate might consider?

If not, could you provide us with such language?

Mr. ABDNOR. Let me assure you Mr. Chairman, we are working on it on the management task force. We have given it a lot of thought and we would be more than happy in a very short time to give you our thoughts as we want to work with you.

You may not agree with everything we propose. But we would like to be heard on it. I think that by all of us working together we can make it a successful program, because we all want the same thing.

We have not even scratched the surface for small business trade. This much I feel very strongly about. Surely there are a lot of things we can do, but looking back over the short period I have been at the Small Business Administration Agency, I do not think our small business people are utilizing what we have. Maybe it is our fault in that we are not doing a good enough job of getting the message out to people. We have been working on it, but I think we can do a better job. We have done some things right now, I do not want to take the time today to tell you the things that we need to do. We do not even need legislation on most of it, but we think we can improve the whole picture a lot more by doing a better job ourselves.

Senator SASSER. The Small Business Administration was kind enough to respond to some questions that I asked the Congressional Research Service to circulate on the whole issue of small business exports.

Jim, one of these questions dealt with a number of small businesses that have received export loans over the past fiscal year. I know you are new on the job, and you may want to defer to one of your associates back there, but the data shows that 67 export loans made in fiscal year 1984 and 1985, but only 27 were made in fiscal year 1986. Frankly, I find these numbers troubling with the number of export loans to small business falling by almost 60 percent.

It appears that small business export loan activity has not been that highly considered by the Agency.

Can you tell us what percentage of your overall loan portfolio the figure that I cite represent?

In other words, what percentage, if you have those figures available of overall loans, do export loans make up?

Mr. ABDNOR. Yes, thank you Mr. Chairman.

Our percentage of the total loans approved in 1986, that went to exporters amounted to two-one thousandths of a percent. These loans represented three-one thousandths of a percent of the total dollars approved in 1986.

I cannot tell you how many we turned down. If we weren't too hard on those who asked for loans, then we would have to assume we were not doing a very good job of telling small businesses that there were loans available for this purpose.

I don't know if there are a lot of people wanting loans and not getting them or if this big drop off is a result of lack of interest. But I am going to tell you this. In visiting around so far, I find that most people in small business are a little concerned, or afraid of the field of international trade because they do not understand it. They do not know enough about it and they are a little skeptical about it.

I think that more groundwork needs to be done. We have to do some work on it. I would like to come back and tell you how many firms have asked for loans, rather than just this figure. Because unless there is an awful lot of people that we rejected or turned down, it simply says we do not have a lot of interest in it at the moment for some reason.

Senator **Sasser**. I think the fact that the Small Business Administration made only one one-thousandths of 1 percent of its loans to small business exporters is indicative of a very serious problem. I think it is also indicative of a very serious problem that small businesses are not applying for the loans, or that small businesses as you said are apprehensive about getting into the export business. That is a failure in my judgment of Government. Because we see other governments around this world encouraging exports, and paving the way for their firms to export.

Of course the most glowing example I suppose is that of Japan, but we are seeing this all across the rim of Asia, and it is something that has occurred literally for decades, if not centuries in Western Europe, and we have simply got to get on the ball here and start encouraging our people to export. I think we have a tremendous wealth of talent in the small business community, if we can just pave the way and let them know they are going to have some assistance in developing exports.

Now Mr. Administrator, your statement indicates that you have a problem, or your agency has a problem with increasing the role of the Small Business Development Centers.

Would you agree with the assertion that we need a more clearly defined, for want of a better word, ombudsman for small business exporters? Because one of the problems I see with our present situation is that we have a multitude of agencies providing or allegedly providing export assistance to small business, yet there is no one central source of information or assistance for the small firm that wants to get into the business of exporting. They simply bounce from one agency to another, and it has been my experience in government and wherever else you operate that if you have responsibility spread from one place to another and no single agency or no single individual taking responsibility, then no on actually does take the responsibility.

To me it seems to make more sense toward establishing a central office where we can take that small business person who has an interest in exporting, who may respond to the urging of Government and others to export. We can take that small business person and walk them through the maze of Federal export programs. And if we do not use the small business development centers for this role, who does the Small Business Administration suggest we use?

Mr. **Abdnor**. SBA should use all of our resources in this effort. Maybe we have been weak in the past, but we are the ones who should do it. I am not downgrading SBDCs. But they are just one tool we have. For instance, the SCORE volunteers that we work with are some of the most talented, capable people you can find. They have been in the business. They want to do more.

We have people who are active today. I can not speak for other states, but I could list you three or four exporters in my State today, as small as they are, who would do anything they can to assist us if we ask them. They will come to meetings and give us their advice and work with other groups.

They are willing to do that. I just do not want to tie everything into one group and say here is your money, take it and spend it.

We think we need to have control of our total program. I agree with you that we have not been doing enough. Recently I sent out a statement to my Regional Administrators telling them that we are going to be moving forward in foreign trade.

We are developing a directory by State of local sources of expert assistance which we will provide to small businesses.

I want to really use our outreach programs to get the word to small businesses about exporting. We are talking about conducting 10 2-day regional conferences for starters.

I think there are a lot of things we can do. We have a lot of potential to use other groups as well. Let's just not go to one group and say you take it all and do it. Give me the opportunity to use all our resources in this effort. If I fail in it then I deserve to do whatever you want us to do. I think we can do a good job working with SBDCs. But they are just one of our resources. They are not the only one available to us.

Senator **Sasser**. I have read through the memorandum of understanding between the Small Business Administration and between the Commerce Department, and I would like to have the input of both you Mr. Administrator and Secretary Smart on this particular issue.

This memorandum of understanding sets out a nice pattern for cooperation between SBA and Commerce. But frankly I am troubled by the lack of specific goals.

It would seem to me that a major part of any such understanding would be establishing a joint goal to increase small business export activity by a certain percentage or a dollar amount.

I think we need to have specific target goals by which to measure our progress and give our people something to shoot at, both in Commerce and SBA. I would ask both of you, are you planning to set specific target goals for increased small business exports as part of this memorandum of understanding?

Mr. **Smart**. Mr. Chairman, I have to say in the interest of being as accurate as I can from my background, where I spent more time as a sales manager than anything else, I am nervous about quantitative goals that are based on figures really pulled out of the air. I would have to start by saying that I think our trade statistics are, while regrettable, caused by factors far beyond the control of the Small Business Administration, the Commerce Department or the individual firms, and are lodged in the macroeconomic policies of this country, other countries, and also in their trade policies.

So I think it would be difficult to establish dollar targets that are meaningful, and of course when you establish a target that can not be reached, it often has a demotivating effect rather than it being a neutral effect.

I think we could establish goals for each of our regions as to the number of firms that we might reach in a given year for consideration as exporters or a number of firms that might be added as new to export. I think it may be a good suggestion to ask us jointly as we work together under this memorandum to see if we can come up with such targets that are useful, and to concentrate on reaching out to those areas that do have potential, but where, as you correctly state, the firms are scared of exporting, and see if we cannot bring them into the fold of exporters.

So I think numbers of firms is a possibility, dollars is probably very risky.

Senator **Sasser**. I think it is important that we do establish some goals, by which if nothing else we can measure our success. Or if necessary, measure our lack of success. We have to overcome the psychological barrier on the part of many American business people and particularly small business people that it is somehow a risky proposition to be exporting, and something that they think about only as a last resort, and then really do not look into it to any degree. I attribute a lot of this to a tradition in the business community here in this country to the concept you do not have to export, that we are always going to be confronted with the continual expanding domestic market that will absorb the products, and we do not have to think about exporting.

But that type of thinking I believe, is an anachronism now, in this international economy that we live in. We have to take advantage of the bastion of inovation and entrepreneurs that we have in small business if we are going to be able to compete in the export markets abroad.

I think we need to establish some goals and some targets, and I think we need to measure our success or lack thereof by how we meet those goals.

Now Mr. Secretary, we invited the Office of the Trade Representative to appear here today and testify. They elected not to attend, which I thought was indicative perhaps of the executive branch's attitude toward small business in the field of exporting. Now the Trade Representative indicated their rationale for not testifying was they made no distinction between large and small businesses in carrying out their particular duties.

I think that demonstrates as clearly as anything could possibly demonstrate the problem that we have in Government in assisting and encouraging small business to get into the field of exporting.

Now, you work closely with the Trade Representative's office. How many trade assistants do they have on their staff over there at the Trade Representatives office, and how many of these trade assistants handle nothing but small business?

Mr. **Smart**. Mr. Chairman, first of all I would have to agree with the USTR's decision not to participate in this particular session because I think their responsibilities are concentrated elsewhere. They have a staff of under 150 people. Their responsibility is basically the coordination of trade policy, and the negotiation of trade agreements with foreign countries. We have 3,000 people in my International Trade Administration, of which approaching half are involved in a kind of service delivery that we are talking about for small businesses here. We jointly use the Industry Sector Advisory Committee for Small and Minority Business for counsel in what we do. But it seems to us reasonable, when we saw they did not want to testify, that we would be the testifier of the trade agencies, because we are the one that delivers the services that we are talking about. USTR has a much different kind of function.

Senator SASSER. My understanding is they have 44 trade assistants at the U.S. Trade Representatives office, is that correct?

Mr. SMART. It could be, I do not know the exact number, it is reasonable.

Senator SASSER. And none of them, according to my information——

Mr. SMART. They tend to be broken down by industry sector and by geographic sector.

Senator SASSER. Are any of them broken down to deal with the particular problems of small business to your knowledge?

Mr. SMART. Only as they would get information from the ISAC or from us.

Senator SASSER. But there is no specific trade representative, or trade representatives on their staff that deal with the problem?

Mr. SMART. As far as I know there is not, and from what their functions are in opening markets or in negotiating trade agreements, it would seem to me that they do that in a way that is useful to all categories of business.

Senator SASSER. Now Mr. Smart that falls on deaf ears as far as I am concerned. Because the Trade Representative's office, is going to be negotiating for the very large exporters with the very large companies, and the small business exporter is simply going to get lost in the crunch. He is not going to be, in my view, strongly represented in our negotiations with foreign trading partners.

I think we are missing a great bet there in not focusing more on trying to get our international trade specialist to give more assistance and more encouragement in trying to foster exports on the part of our small business people.

Mr. SMART. Senator, I hate to disagree. I think that is the job of SBA and the Department of Commerce, not the USTR.

Senator SASSER. I doubt very seriously, if we were dealing with a representative in the Japanese Government that they would be making that argument. I think what they would be saying to their representative from the Japanese Diet is they want to work very strongly with everybody and do what can be done to foster exports across the broad spectrum of the Japanese economy. They have been very successful in doing it, and what we have been seeing here, on our side, are bureaucratic disputes about whose turf is being invaded, trying to make determinations about who ought to do what, and I think we are losing track of the overall goal here. That is to increase the total volume of American exports. If we do not do something about increasing this volume of exports, I think we are going to reap a whirlwind here in the very near future.

Your statement lays out in great detail the variety of activities the Commerce Department pursues to generate small business exports. Yet I think you would have to agree that the results of these efforts have not been as rewarding as we would have liked. We simply do not have many small firms entering export markets, and what reasons do you attribute this shortcoming to Mr. Secretary? Would greater coordination between Federal offices in your view help alleviate this problem?

Mr. **Smart**. Senator, you can always do the job better. You make reference to MITI. Incidently, I have not seen anything in MITI in all my dealings with it that suggest they look at things by size of company. They do look at them of course by industry, and they include all companies when they are talking about an industry as we do.

I think that you have to say the biggest problem, of the many problems with American exports, is the dollar. The tendency of Americans to think that they have a big, large market here, and that it is enough for their purposes, because small companies have a long ways to go before they fill up the U.S. market, is another part of the problem.

The risks of working overseas are part of the problem, they are very real. Our job is to minimize them. But you can not eliminate them. There are many difficulties that are in the way of exports. I can not tell you whether our efforts have been as successful as they should be. I do not think there is a yardstick, as I said before, that is very useful in that respect. But the thing we need to do is to tap the resources we have, to coordinate the capabilities of the various agencies of the government as we are trying our best to do, to minimize turf concerns as I hope we have been doing in the time I have been here, and to move forward.

If we had more resources, obviously we would do more. But we have very strong budget constraints that we all operate under.

Senator **Sasser**. Well Mr. Secretary, I think there is a yardstick that is out there to determine the success or lack thereof, not only of Congress' efforts, but of all of our efforts. And that is this massive trade deficit that continues to grow every year. There are a lot of reasons for this, but we had a trade deficit before we had an overly strong dollar, and we are not getting the results trade-wise that we had anticipated from the declining of the value of the dollar. As the dollar goes down we continue to see the trade deficit grow.

So we have very serious problems. I think there is a yardstick by which all of our efforts can be measured, and that is this greatly, this trade deficit that continues to grow on us.

Gentlemen, I thank you for appearing here this morning, and giving us your views. Some of the members of the Subcommittee may have questions which they might like to submit in writing. If they do so, we would appreciate you answering them expeditiously.

Gentlemen, thank you and Mr. Administrator it is good to see you this morning.

Mr. **Abdnor**. Thank you. Let me tell you once again Mr. Chairman, we want to be working with you as we go along this. Thank you.

[Material follows:]

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

MAY 20 1987

Honorable Dale Bumpers
Chairman
Committee on Small Business
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This is in response to your letter of May 4, 1987, requesting the Small Business Administration to respond to additional questions raised at your recent hearing on export expansion for small businesses.

Question 1

Secretary Smart indicated to the Subcommittee on Export Expansion that the Commerce Department and the Small Business Administration could modify their memorandum of understanding to provide specific goals for increasing the number of small businesses that export. We believe this would be a very worthy step. Please provide us with information on when and how you will establish these specific goals.

Answer

The purpose of the memorandum of understanding is to assure that the two agencies will assist one another and not duplicate efforts.

Individual goals will be developed within SBA to reflect the objectives of the memorandum of understanding. Shortly I will be meeting with all Regional Administrators where international trade will be highlighted. I will then be meeting with all District Directors. At these meetings I will seek suggestions concerning suitable goals. Based upon their recommendations and those of the Management Board International Trade Task Force, we will then propose these goals to the Department of Commerce.

After discussion with Commerce we will develop mutually agreeable specific goals and these goals will be adopted by the SBA. This is expected to be accomplished by mid July.

During FY '88 these goals will be included in individual performance criteria as well as in formal Agency reviews.

Question 2

One proposal for increasing small business export activity is to increase the guaranty limit under the 7(a) program to $1 million for loans used in purchasing plant or equipment used to produce goods and services for export. What is your position on this proposal?

Answer

Section 7 of H.R. 1854 would authorize loan guarantees of up to $1 million for financing the acquisition, construction, conversion or expansion of plant or equipment, to be used in the United States in the production of goods and services involved in international trade. The business and services produced with the assistance of the loan must be "involved in international trade."

The loans would be secured by a first lien position or first mortgage on the property financed by such loans. The lender would have to sell the loan in the secondary market within 180 days of disbursement. In addition, a borrower could qualify for up to $500,000 for working capital, supplies or revolving lines of credit from the existing 7(a) program. All other aspects of the guaranty would be the same as those of the existing 7(a) program.

There is little to distinguish this proposal from the already existing 503 Certified Development Company loan program. Both the proposal and the 503 program provide loan guarantees for purchasing plant and equipment. Each is secured by the plant and equipment. The guaranteed portions of each are sold in the secondary market.

The 503 program provides more dollars for plant and equipment financing than does the proposal. The maximum amount of a 503 deal is $1,250,000 ($500,000 from the SBA guarantee debenture, $625,000 unguaranteed from a private sector lender and $125,000 from the development company or the small business). The maximum size of an industrial mortgage loan with an 85% guaranty would be $1,176,471. The 503 program produces more money at a lower Federal exposure -- a $500,000 guaranty in the 503 program versus $1,000,000 in the industrial mortgage program. The 503 program is also more efficient at leveraging Federal dollars. It leverages $1.50 in private sector, unguaranteed dollars for every guaranteed dollar. In contrast, the mortgage guarantee would leverage only $.18 for each guaranteed dollar.

Moreover, the funds would be used for roughly the same purposes. While the industrial mortgage proposal purports to target the trade deficit, the language would permit loan dollars to be used for any goods or services that are "involved in international trade," whether or not the business is an exporter. This language is so broad that it would probably make the potential class of industrial mortgage loan recipients virtually indistinguishable from eligible 7(a) borrowers.

For these reasons, SBA is opposed to enactment of Section 3.

Question 7

In correspondence with the Senate Budget Committee, the Chairman and Ranking Member of the Small Business Committee set forth a new initiative for export activity. The Committee indicated its desire in establishing a staff of international specialists or advisors in the Small Business Administration. Do you support this proposal?

Answer

At the present time we do have an Office of International Trade with an authorized ceiling of six persons. Each Regional office is authorized one full position as the Regional International Trade Officer.

In addition, through our Service Corps of Retired Executives (SCORE) and Active Corps of Executives (ACE) programs and our various university based programs we have available additional international trade counselors.

It is my opinion that the needs of the local small business community and the availability of other sources of export assistance should be among the factors determining the requirement for additional SBA employees in our international trade program. If additional personnel are necessary because of these factors, I would like the flexibility to make such alterations. I do not support the statutory requirement for a full time international trade program person in each SBA District or branch office.

I sincerely hope the above answers will be of assistance to you.

Sincerely,

James Sanders
Administrator

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

We will begin to bring our domestic offices on line this summer and expect CIMS to be fully operational by December 31, 1987.

Market information is time-sensitive for effective decision-making. CIMS will in large measure automate the preparation, transmission, organization, and dissemination of the market identification, market assessment and trade contact and trade opportunity information collected and reported by the US&FCS.

CIMS will provide small businesses with specific marketing information promptly and efficiently. Information gathered overseas will be electronically transferred to our headquarters data base which can then be accessed by all components of ITA, including domestic field offices, states and private groups. Through a method of SIC and/or keyword search of the data base, ITA staff and State government trade offices can provide a U.S. small business with a customized marketing package, including current trade leads, in a short period of time.

ITA's fee structure is designed to encourage small business participation while still recovering system costs.

CIMS will serve the export needs of small business in the following ways:

- Market Identification

  CIMS will transmit information to help rank individual markets as potential targets for specific products and services. Trends affecting trade and investment will be available, as well as statistics dealing with exports, imports, consumption, production and national infrastructure.

- Market Assessment

  CIMS will contain information on market demand and size for specific products; market characteristics and behavioral factors, trade barriers; marketing techniques and operational considerations; and competitor firms and product end-users.

- Contact and Sales Leads

CIMS will transmit information which will assist in identifying potential customers for specific products; prospective agents and distributors; immediate sales and representation opportunities; reliability of potential buyers, agents and distributors; and promising marketing methods.

- Trade Event Information

CIMS will provide a current calendar of trade events, including trade fairs, missions, foreign buyer shows, catalog shows, and matchmaker events around the world.

In summary, the purpose of CIMS is to automate and thus increase and speed up the flow of relevant trade information relating to export opportunity and conditions to US&FCS principal constituencies -- small- and medium-sized businesses. While this effort should be very helpful in providing timely data for business decisions, it goes without saying that actual export success will depend heavily on the aggressiveness, effort, and skill of the private companies and entrepreneurs who take advantage of it.

QUESTION 2

During your appearance before the Subcommittee on Export Expansion, you indicated that the Commerce Department and the Small Business Administration could work towards establishing specific goals for increasing the number of small business exporters in this country. The Committee believes this to be a very worthy step. Please provide the Committee with information setting forth both when and how you will establish these specific goals.

ANSWER

We are asking our district offices, in conjunction with local SBA's, wherever appropriate, to develop a plan for increased outreach to small businesses with export potential. Our objectives will be to:

(1) Locate these businesses.

(2) Advise them on exporting techniques by seminars and individual counseling.

(3) Establish their interest.

(4) Tie them into the US&FCS system.

(5) Link them up with overseas market opportunities, distributors, joint venture partners and the like.

(6) Help them when overseas through our 125 posts in 65 foreign countries.

Each distict effort will be an element of its annual plan, with proper allocation of resources and establishment of rough numerical goals to accomplish it. Periodic overview of progress against these plans is a responsibility of US&FCS management and an important factor in rating US&FCS officials.

My testimony indicated support of qualitative goals such as these, but was not encouraging on the usefulness of precise targets such as "number of exporter contacts" or "dollar sales generated."

My skepticism of a numerical approach is based on experience in both government and private business.

Both the GAO and the Commerce Inspector General criticized our prior effect to rate offices by numbers of "new-to-export" and "new-to-market" firms with the comment that "excessive reliance on numerical goals as a means of determining the effectiveness of our programs was a major reason for the overstatements of new-to-export and new-to-market accomplishments." My own experiences visiting offices working with these targets suggested that more attention was often paid to a number of contacts than the depth and quality of each. In short, it stimulated a numbers game, rather than an in-depth approach to the problem.

We had equally poor experience trying to quantify success in developing new-to-market and new-to-export companies.

Attention was diverted from providing real help to those who needed and could use it to an effort to "count" or claim credit for as many companies as possible, whether our efforts were central to or only peripheral in their new export activities.

Thus, I believe the best way to increase attention to this matter is to highlight it in the plans and in the management review of offices and individual employees.

I would be glad to discuss this in person if you have other ideas on how we can stimulate and measure efforts in this important area.

QUESTION 3

Your agency makes great use of seminars and other gatherings to generate small business export activity. What sort of follow-up work do you do to determine how many small firms begin to export or expand their export activity as a result of these seminars and conferences?

ANSWER

Contact information on all conference participants is maintained by adding them to our CIMS clientele data base, where appropriate. Frequently, participants to the conferences are already active accounts of the District Offices and have been referred to a specific conference or seminar for further elaboration on a specific subject. District Office trade specialists will attempt to contact participants unknown to them for follow-up. The extent of this follow-up is based on the firm's interests and export potential. It should be noted that some participants do not provide sufficient contact information on the registration form for follow-up purposes.

QUESTION 4

Delegates to the 1986 White House Conference on Small Business recommended that Congress explore establishing an "Export SBIR" program. Basically, this recommendation argues that the best place to generate ideas on how to increase small business exports is to go directly to small firms and ask for their ideas. In other words, the government would go out and solicit proposals from small business on how to increase export activity. These proposals would be evaluated and the most promising proposals would be awarded cash incentives to be matched by the private firm submitting the proposal. What is your reaction to this type of proposal?

ANSWER

It is an interesting concept, but further work is needed. An initial effort was made recently to clarify the details of the proposal. The SBA is evaluating bids now for an independent firm to further develop the proposal. SBA expects to let a contract soon. We are working closely with the Industry Sector Advisory Committee on Small and Minority Business to study this proposal.

Senator SASSER. Our next witnesses this morning are Mr. Ebersole Gaines, the executive vice president of the Overseas Private Investment Corp., and Mr. William Ryan, the first vice president and vice chairman on the board of directors of the Export Import Bank here in Washington.

Mr. Gaines and Mr. Ryan, if you would come forward. Gentlemen, I want to welcome you here this morning before this Subcommittee, and Mr. Ryan we will begin with you this morning. If you have a prepared statement we would be delighted to hear it.

STATEMENT OF HON. WILLIAM F. RYAN, FIRST VICE PRESIDENT AND VICE CHAIRMAN, BOARD OF DIRECTORS, EXPORT-IMPORT BANK, WASHINGTON, DC

Mr. RYAN. Thank you Mr. Chairman, it is a pleasure to be with you this morning. I would like to summarize some of the main points that we made in our written testimony which was submitted some days ago.

We have been working in recent years, although I have only been with the bank less than a year, to taylor our programs to the needs of the small business exporter. Despite comments that have been made even recently to the effect that Eximbank is largely the financing arm of some of America's largest export companies, let me assure you that we at Eximbank are deeply committed to working with and promoting the small business of America in their export drive.

We believe as you do, that these are the companies that have provided the jobs in recent past, and that are the growth companies of the future, both domestically and internationally.

We go back to the statute, our statutory charter makes sure that we ensure that our programs are made widely available to the small business exporter. By statute, one out of five of our directors has to be a representative of the small business community. In our case that is Mr. Simon Fireman, who joined the bank a few months ago, and who is if anything an ardent supporter of the small exporter with a lot of practical experience.

At least three members, per the statute of our advisory committee must be representative of the small business community. And they over the years have given us lots of good input as to what our programs should be like.

And lastly, we have to have one of our senior officers in the bank, presently senior vice president Bill Arnold responsible specifically for small business activities, and for disseminating the benefits and the availability of those programs.

We have a set-aside requirement, which was put in the legislation in 1983 which requires us to set aside 6 percent in fiscal year 1984, 8 percent in fiscal year 1985, and 10 percent in fiscal year 1986 and thereafter of our authorizations for small business.

I am very pleased to report that we have met and exceeded those targets every year. For example, last year, not 10 percent but 24 percent of Eximbank's actual authorizations were used for exports by small business. Or in dollar terms, $1.44 million out of a total of about $6 billion in authorizations.

Despite these efforts and I think some success we have felt, especially in the last year that the bank's resources could be even more effectively managed to serve these exporters, and especially in our current environment. As a result, since last year, we have been working and engaged in the most thorough review of the bank's programs in a generation, since 1960. We recognized in that review, taken in connection with the export community and the banking community that serves exporters, that small business exporters face very special problems in trying to export. They have difficulty in finding a lender willing to work with them when it comes to foreign risks involved.

They have difficulty in receiving assistance with the complex paperwork that is involved in letters of credit and that kind of thing, things that they are not familiar with in the normal business activity.

And finally, in finding actual financial support for their transactions. So we have revised our programs very thoroughly. In fact Mr. Chairman, the day after tomorrow is roll out day as far as we are concerned. We are rolling out the new Eximbank programs, which we think and we know, in fact, because we have had lots of feedback from the exporting community, are different; different in degree and very, very effective we feel and will be effective in supporting the needs of the exporters.

Again, let me stress in that review, and in these programs, we have tried especially to serve the needs of the small- and medium-sized exporter, for two reasons. The big exporter does not need much help, the Boeings, the Westinghouses of the world know how to finance their exports, and they know our availability. It is the small exporter that needs to be helped and reached, and we have tried to do that.

Second, the type of export business that we see as a country, and therefore as a bank, is less and less the big ticket item, the big project, the big nuclear plant. It is more and more the single transaction or let's say two or three locomotives, or a single plant of some sort, or a single computer. It is smaller types of items that are more suitable for medium term financing, and more of an opportunity for the small and medium exporter.

So what have we done? We have revised our guarantee programs very substantially, and made them much more accessible to our exporters. We have improved we think our intermediary lending program, so that if an exporter finds a bank that is willing to help and lend at a low rate for an export, we are there to provide funding to that exporter at a reduced rate of interest, to his bank I should say, to his financial intermediary so that that bank is induced to go forward and support that transaction.

We have improved our working capital guaranty program. And let me say in the few months that I have been at the Export-Import Bank, it is one of the most exciting programs that I see and I think has great potential for the future.

We are in a position, and we do supply working capital loans, loans against export receivables and inventories geared to exports, especially to the smaller firm that is trying to get into the business for the first time. Since we started this program back in 1983, 1984, we have done about 108 cases for a total of $110 million, which have supported sales for 75 small business exporters, all of them for the first time in 26 States and the District of Columbia.

Not only that, but this program we feel has momentum. In the first 6 months of this year, we did as much as we did in all of 1986 in this form of loan.

Senator, you may recall the Jernigan Trading Co. in your own State, a small exporter, well not an exporter to start with, a three person firm, which bought logs from surrounding forest in your part of the country, processed those logs, especially into veneering hard woods, and identified target markets in western Europe. His problem was export financing, and especially working capital financing to buy those logs, process them, and then give extended payment terms to the European importers.

He was able to find a bank and we were able to supply a working capital guaranty, and we rolled it over several times, so that he was able to develop that financing, and he has an attractive export business going.

We have done that a number of times. Recently we did an attractive, an interesting transaction in that regard. We had a small oil services equipment company in El Dorado, KS, which had an export order for Bangladesh. There are not many commercial banks in the country that are anxious to lend money to Bangladesh these days. Most of them would not know where it is.

He had a good export order because his take out, his payment was by the Asian Development Bank, which was going to supply the money for this project. But his problem was getting the attention of a bank here in the United States. Again we were able to step in, knowing this exporter, knowing his track record, having done two working capital guarantees with him previously, we were able to give him a commitment for a $7 million export working capital loan, and with that commitment he is now shopping around for the most suitable bank. We feel certain that he is going to get that order, not only that, we see a follow on order once he is established, in fact in this case ahead of the Japanese in this particular deal. We feel confident he is going to get a follow on order for even a larger amount. So that has been an exciting program.

One has to say though that the bulk of our support for the small business exporter has been in the insurance field. We provide credit insurance on the receivables that an exporter generates from his transactions. We do that through our affiliate, our arm in New York, the Foreign Credit Insurance Association, which last year really provided or accounted for about 75 percent of authorization, of our activity. Most of their business is with small business. In fact 72 percent of their policy holders are small business firms of one sort or another, mostly short term business.

We have made some innovations there in recent years. We have a new to export insurance policy, we give special terms and conditions. We are not as tough on the paperwork and that kind of thing. We are easier on the fees when an exporter is coming into the exporting business for the first time.

We also have some umbrella policies. The individual small exporter often can not cope with the paperwork, the shipping documents, and so on, so we work with state export agencies and banks that will, on behalf of a number of exporters handle that paperwork vis-a-vis the FCIA.

We have 23 umbrella policies there handling over 100 exporters. A very recent innovation was a trade association policy. We signed an agreement with the machine tool builders association here in town, for which they will act as the master policy holder on behalf of any of their exporters who have very often a small export transaction. We will process that with them, and we have a bank standing by in Chicago that is ready to take all of the acceptable transactions that come through that pipeline.

That really brings me, Mr. Chairman, to what is our problem if you will in this area in doing more for the small exporter. Namely, it is a marketing problem, a distribution problem.

We have at the bank, and I can speak really as an outsider who has just joined the bank in recent months, the recent year, a very effective new set of programs. They have taken a lot of work, and they are really responsive to the needs of the small exporter.

Our problem is the distribution system. We just have the bank located here in Washington with about 300 employees. I was a bit jealous when Mr. Smart was talking about 1,200, 3,000 a few minutes ago. We do not have troops of that order of magnitude. We do have an extension through the FCIA, our insurance affiliate, because it has offices in New York and in four key cities around the Country, and a staff that can market our programs.

FCIA also works through the insurance broker community around the Country. They are spread right around, and they do get fees for feeding business like that into our insurance affiliate, so that helps a great deal too.

We are trying to reach out. Let me stress this however, we are not an export promotion agency per se. That is Mr. Smart's responsibility and Mr. Abdnor's. We do not develop exports, we do not identify markets, we are not a market research organization.

When somebody has an export, we are there to finance it, to insure it, or to guaranty it in the most effective way possible. Especially when our exporters are competing against subsidized financing of the Japanese, the French, the Germans, the English and others. That is our role. And we try to do that effectively.

We welcome any intermediary efforts to reach the small exporters around the Country. We ourselves do that as much as we can. Last year, through our special marketing department set up to serve this need, we made trips around the country, 35 or 40 in number, we reached directly about 5,000 exporters. Most recently last week we were in Minneapolis, yesterday we were down in Florida. We try to reach out as much as we can ourselves.

Inevitably with a small staff, we have to rely on others. We rely on the banks, there are a primary distribution network, our dealer system in a sense, because they have a vested interest in this business. Eventually in most cases, they handle the paperwork and they serve their customers. We have a seminar training program, we have already put through 300 banks around the Country through that program, and have certified them as qualified people to handle this export business. So when a small exporter calls in on our hotline which is manned all day long by an experienced person who was with the Commerce Department and now knows our programs very thoroughly, he is able to tell them, well you have to go to a bank for this transaction to start with, here is a bank in your area that you might want to try.

Or he can refer that person to the Commerce Department and say here is the person and the Commerce Department that handles your kind of transaction in your area, talk with him and when you have a transaction that is ready to go, we are here, ready to finance it.

I think that about summarized what we have been trying to do Mr. Chairman. Let me say again that we are committed to this. Our statute renewal last year by the Congress, for 6 years was clear that they want us to be more aggressive, more accessible to the exporter, more supportive of the medium term and small-sized exporter than we ever were before.

We take that mandate seriously, we have revised our programs, we are ready to go, and we think we are going to do a good job for the American exporter, especially the small one as time goes on.

Thank you.

[The prepared statement of Mr. Ryan follows:]

STATEMENT OF
THE HONORABLE WILLIAM F. RYAN
FIRST VICE PRESIDENT AND VICE CHAIRMAN
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE
SUBCOMMITTE ON EXPORT EXPANSION
OF THE
COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

April 29, 1987

Mr. Chairman, Members of the Subcommittee:

It is a pleasure to appear before the Export Expansion Subcommittee of the Senate Small Business Committee, and I thank you, Mr. Chairman, for providing me with the opportunity to review with you the efforts which the Export-Import Bank has made in recent years to tailor its programs and products to the needs of small business. At the outset, let me say that we at Exim agree with you that the future competitiveness of the United States and our ability to tackle the gargantuan trade deficit hinge in large part on the competitiveness of our small companies; that is where we can continue to expect the greatest growth in job creation and gross national product.

Despite comments in the past that Eximbank has been largely the financing arm of some of America's largest exporting companies, let me assure you that we are deeply committed to working with and promoting the small businesses of America in their export drive. We believe that America's small businesses must be able to market their products worldwide, and we believe that Eximbank has been helping and will continue to help them achieve their goals.

Over the years, Congress has enacted provisions in our statutory charter to ensure that Eximbank programs are made widely available to small business. By statute, one of our five Directors must be a representative of the small business community. At least three members of our Advisory Committee must be representative of the small business community, and, I would add, those who have served in the last few years have provided numerous suggestions and valuable input into the Bank's evaluation on the needs of small business. One of the Bank's senior officers must be specifically responsible for our small business activities. There are additional provisions of law which direct us to develop programs to disseminate the availability of our programs to small business concerns. Furthermore, in 1983 Congress provided a set-aside of the Bank's annual budget authority for use only for small business exports - 6% in FY 84, 8% in FY 85, and 10% in FY 86 and thereafter. I am pleased to report that we have met or exceeded our small business set-aside targets every year -- in fact, 24% of Exim's actual authorizations were used for exports by small business last year. In dollar terms, small business accounted for $1.44 billion of the $6.08 billion authorized.

Despite our successes in assisting these exporters, we have felt that the Bank's resources could be even more effectively managed. As a result, since last year -- and even before enactment of the amendments to our charter in October 1986 -- we have been engaged in the most thorough review of the Bank's programs since 1960. With reference to small business exporters, we are seeking to provide them with the full range of support which they need in order to compete in today's marketplace. We recognize that, in addition to the broad difficulties facing all exporters over the past several years brought on by the LDC debt crisis, lower demand for U.S. goods, and until recently an overvalued dollar, there are several chronic difficulties relating more to the small- and medium-size business exporters. These include the difficulty of finding a lender willing to work on small transactions, receiving assistance with the paperwork associated with all forms of international trade, and obtaining financial support at a reasonable cost.

I am pleased to tell you that the results of our overall review are now embodied in new programs which go into effect on May 1. Some of the program features are specifically directed at small businesses; others will benefit all exporters, including small businesses. For example, our direct lending program, which provides fixed-rate loans, has now been made far more accessible to small businesses. Now, a small business exporter can request a loan in any amount no matter how small. Moreover, if approached directly, Eximbank will provide the loan to the exporter without requiring a financial intermediary. As a special incentive for small business exporters, Eximbank will not require evidence of foreign officially-supported competition before approving a loan. Additionally, a small exporter will be able to receive a preliminary commitment setting forth the terms and conditions upon which Eximbank will be willing to make a loan. The exporter will then be able to use the preliminary commitment to show the potential overseas purchaser the kind of financing that may be available if it wins the export sale.

Just a couple of weeks ago, we announced that we would provide a $7.2 million guarantee on behalf of International Petroleum Services, Inc. (IPS) of El Dorado, Kansas, for the export of $10.7 million of oil field equipment to the government oil company in Bangladesh. We have previously worked with IPS, providing guarantees under the Working Capital Guarantee Program, in Pakistan, India and Turkey, but this is the first time that we have offered a government guarantee prior to the exporter arranging for commercial bank involvement. IPS will now go with our commitment in hand to a commercial lender to obtain the funding. Repayment of the contract will be made possible through the Asian Development Bank which is making an earmarked loan to the Bangladesh government in order to repay the loan. We are all very excited about the IPS arrangement, because it shows how we have now made all our programs equally accessible, especially for small businesses.

Guarantees will also be more readily available to the small business exporter. Keeping in mind the needs of the small business exporter, we have made similar improvements in our intermediary lending program which basically provides stand-by funding for private lenders making fixed rate loans. In particular, on small transactions we will require a lender to charge interest to foreign borrowers at the applicable OECD consensus rate, while we will fund the lender at 1.5% below that rate. Thus, on small transactions, the lender is assured of a return of 1.5%, while the return on larger transactions will be kept between .5 and 1%.

We have also made improvements in other programs. Several years ago, we found that one of the most difficult problems small businesses face is obtaining working capital, pre-export support in order to purchase raw materials, meet payrolls, and produce the goods and services for sale. If they cannot overcome this obstacle, all other issues are moot. We found good, well-managed companies unable to take advantage of export opportunities for the lack of the working capital needed for the lead-times involved in export sales.

We created our Working Capital Guarantee Program in 1983 to remedy this situation by providing this pre-export financing. Since then we have approved 104 cases, with a value of $110 million. Businesses in 26 states and the District of Columbia have benefited from the program. There has been considerable diversity in the products sold, ranging from wood products, to machinery, and high-tech products. Exports under this program have gone forward to 27 countries. There is a great deal of momentum in this program. In the first six months of this fiscal year, our authorizations will reach or exceed the level for all of 1986.

In this connection, let me also note that we have developed a joint guarantee program with the Small Business Administration to double its working capital guarantee capacity to $1 million. This program has been used on seven occasions.

As part of our overall program review, we took a hard look at the Working Capital Guarantee Program and have given careful thought to exporter and lender suggestions concerning documentation, collateral, fees, and the delegation of authority. We expect to complete our revision on all of the documentation under the Working Capital Guarantee Program within the next few weeks.

Let me cite for you a case of a small emerging company which used the Working Capital Guarantee Program with great success.

The Jernigan Trading Company is a family-owned timber trading company based in Knoxville, Tennessee, which buys standing timber growing in forests in the Southeast and sells lumber to Western European mills. Company president Victor Jernigan found that many of his European customers had difficulties affording American lumber while the dollar was overvalued. Mr. Jernigan, however, was able to obtain the order by extending easy credit terms to his buyers.

Mr. Jernigan paid cash for his lumber, but agreed to receive deferred payment from his customers. He needed to borrow working capital, but found that he could not arrange the amount of financing he needed with his collateral of export receivables and an inventory of logs.

Mr. Jernigan learned of the Working Capital Guarantee Program at an Eximbank Seminar in Nashville. He applied to Maryland National Bank for a line of credit, and the bank agreed to extend a $479,000 revolving credit line secured by his inventory and accounts receivable, if Eximbank would extend its guarantee to 90% of the outstanding amount of the line. Mr. Jernigan has been successfully building his export business in difficult times for three years now with the help of our guarantee.

Another of our existing programs protects small businesses against foreign repayment risks. As commercial banks become more risk-averse and sources of political risk insurance become fewer, many choose to insure their sales with the Foreign Credit Insurance Association, our insurance arm. In fact, the majority of all FCIA policy holders meet the SBA definitions of small business. Small businesses have found that our programs made it possible to continue to sell in tough markets abroad through our facilities for Mexico, Brazil, Nigeria, Jamaica, Central America, the Philippines, and others.

While most businesses use FCIA's short-term deductible policy, we offer an insurance program for companies which are new to export. Special enhancements, such as lower premiums and an assurance to lenders that they won't be penalized for mistakes made by inexperienced exporters, make this policy especially useful to companies just beginning to export. Again as part of our overall program review, we are in the process of simplifying this policy and quantifying the risks in such a way that lenders will be able to treat international trade in an operationally streamlined fashion.

We have developed an umbrella policy so that intermediaries such as state agencies, insurance brokers, and banks can market and administer policies on behalf of a number of small businesses. At this time we have 23 umbrella policyholders, representing an aggregate of 132 exporters under these policies.

We have also introduced a specially designed program for trade associations. I am pleased to report that the first such policy is already in operation for the National Machine Tool Builders Association on behalf of its members and will be copied by other associations. This policy packages short- and medium-term insurance. The association is administering the policy on behalf of its members, providing such useful services as making premium payments and shipment reports, and filing claims. Eximbank staff and association executives are jointly marketing the policy. In fact, this month they met with member companies in Washington, Chicago, Hartford and Detroit. An important element in this package is that a commercial bank was selected to provide financing for all insured transactions, even for small amounts that had been difficult to finance in the past.

No matter how good Eximbank programs may be, they still require a distribution system to get them into the marketplace.

Eximbank organized a Marketing and Program Development Division in 1984, headed by a Vice President. It coordinates bankwide efforts to reach small businesses and to work with the program divisions to create and implement new programs. In FY 1986 marketing division personnel made presentations to 5000 people in 36 states. These outreach efforts were coordinated with FCIA regional marketing offices in New York, Miami, Houston, Los Angeles, and Chicago. Commerce Department and SBA offices also have cooperated with us in this effort.

Developing intermediaries is of utmost concern to us at Eximbank. With a small staff we need qualified and motivated intermediaries to reach all of the prospective small and mid-size businesses which could benefit from our programs. Commercial banks have been our most significant distributors. So, to be sure that they were well-trained in Eximbank programs, we began an intensive four-day program of seminars that led to bank certification. To date nearly three hundred banks, large and small, in 39 states have been certified. I am glad to say these seminars have also been well-attended by representatives of state agencies, and field officers of the Department of Commerce and the Small Business Administration.

Now, let me comment briefly on H.R. 1854, which is the House Small Business Committee's pending amendment to H.R. 3, the

Trade Bill. As I mentioned earlier, Eximbank has already developed a variety of distribution mechanisms to ensure that information about our programs to help small businesses is disseminated as widely as possible, and we have been working with both the Small Business Administration and the Department of Commerce in this regard, including the field offices which have been very helpful over the years in promoting the use of our programs by small- and medium-size companies. Thus, while we welcome any suggestions of other ways to inform small businesses of the export financing available to them, we cannot support the provisions in this legislation because they are unnecessarily duplicative of existing programs and efforts. Moreover, while the Small Business Administration can provide information about Eximbank's programs and assist small business exporters in filling out application forms, I want to emphasize that the authority to approve transactions must remain with Eximbank. In view of the technical requirements and complexities of our programs, small businesses will be best served by having their applications processed by the Eximbank staff itself, which has been fully trained to match the appropriate Eximbank financing to the exact needs of a particular exporter and particular transaction.

Mr. Chairman, since our 1983 meetings, Eximbank has been aggressive and innovative in its support of small business. We have developed new programs. We haven't been afraid to take risks. Some concepts and programs have worked better than others. We are now at a stage where we have evaluated the program, put our emphasis where it is likely to be most effective, modified programs in conjunction with user suggestions, and are ready to do still more. You have given us the tools, and we have the attitude and enthusiasm to do a job that we all recognize is vital for American exports abroad and for jobs at home.

Senator Sasser. Thank you. We will now hear from Mr. Gaines representing the Overseas Private Investment Corp.

STATEMENT OF L. EBERSOLE GAINES, EXECUTIVE VICE PRESIDENT, OVERSEAS PRIVATE INVESTMENT CORP., WASHINGTON, DC

Senator Sasser. If you would summarize as much as possible, we would be in your debt Mr. Gaines.

Mr. Gaines. I think I can do that. I appreciate being able to discuss the record of the Overseas Private Investment Corp. in promoting a greater role for U.S. small business in the world market place.

I think you know that we are in the finance business and in the insurance business, and I will not dwell on that. Congress has specified that OPIC provide special support for small- and medium-sized businesses as a means of furthering development in the third world, the world's fastest growing markets

Virtually everyone has agreed that we must improve our export position, but it seems that relatively few people recognize the critical role played by Overseas Private Investment in the trade process.

A 1985 study made by the Department of Commerce shows that more than one-third of all U.S. exports go to overseas affiliates and subsidiaries of American companies. The substantial domestic jobs generated by these exports make a very important contribution to U.S. employment.

In light of these facts, the need to broaden the investment role of the small- or mid-sized business community becomes critical. Now traditionally this segment of U.S. business has not been internationally oriented because there has been ample room for growth in the domestic marketplace. But recent years have seen rapid changes, both on the international scene and in the character of the U.S. market itself. Unless we take a more aggressive stance, we will not only lose those overseas markets, but will ultimately jeopardize our ability to compete in our home markets.

OPIC's efforts to increase the participation of small U.S. companies in international markets have expanded steadily. During the period from 1981 to 1985, more than 35 percent of the projects insured or financed by OPIC have involved small businesses. A record high was reached in fiscal year 1986 when 45 percent fell into that category, 50 percent more than the 30 percent target in our legislation.

In order to respond more effectively to the needs of U.S. business we have sought to streamline the approval and disbursement process for our projects. This streamlining process allows OPIC to respond rapidly to the demands of small business and to support them as they seek to compete in the international arena.

In addition to our basic finance and insurance programs, we have developed some special service programs tailored to small business needs. Among these are: Establishment of a data base, we call it the Opportunity Bank, that provides a matching source between U.S. companies and potential joint venture projects. There are some 1,700 projects in the bank at present.

Creation of investor information service through which we provide information kits on the investment climates, regulations and incentives of more than 100 developing countries.

We have outreach seminars in selected U.S. markets conducted in cooperation with the U.S. Department of Commerce, Export-Import Bank, and the Small Business Administration, to educate small business about opportunities in Federal services.

An ongoing communications program designed to reach the smaller business community through media, seminars, speaking engagements, and so forth.

Investment missions to targeted countries: A high percentage of the participants of smaller businesses which benefit from the program sponsorship of the U.S. Government.

Because OPIC's resources are limited, 130 people, we have sought to strengthen our ties with other Government entities concerned with foreign economic policy, including among others, Congress, Export-Import Bank, the Agency for International Development and the Small Business Administration.

As a result, we have been able to undertake a number of new initiatives. This teamwork has been possible because the participating agencies recognize the value of having the U.S. Government's export promotion programs directed by the Department of Commerce, which has the organization and the expertise to coordinate efforts both at home and abroad.

For example, OPIC has enjoyed the full cooperation of the Department of Commerce field offices around the country, and with the U.S. Foreign Commercial Service will co-sponsor a business investment mission to Guatemala in July. A number of small businesses are expected to participate.

In closing, Mr. Chairman, OPIC hopes that its innovative programs will be particularly instrumental in generating increased U.S. small business investment and exports in the developing countries during the coming years. We are confident we can get the job done, and we will be pleased to answer any questions you have.

Thank you.

[The prepared statement of Mr. Gaines follows:]

STATEMENT OF

L. EBERSOLE GAINES

EXECUTIVE VICE PRESIDENT
OVERSEAS PRIVATE INVESTMENT CORPORATION

BEFORE THE

SUBCOMMITTEE ON EXPORT PROMOTION
COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

Wednesday, April 29, 1987

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to appear before you today to discuss the record of the Overseas Private Investment Corporation in promoting a greater role for U.S. small business in the world marketplace.

The Overseas Private Investment Corporation is a self-sustaining U.S. Government agency whose purpose is to encourage direct private investment in developing countries as a means for stimulating economic and social progress. We offer two principal programs: (1) financing in the form of direct loans and loan guaranties; and (2) the insurance of U.S. enterprises against certain political risks.

Congress has specifically directed OPIC to provide special support for small and mid-sized businesses as a means of furthering the development process and strengthening our competitive position in the world's fastest-growing markets -- those of the Third World. Small business participation in overseas investment can make a valuable contribution to increasing exports of U.S. goods and services, and thereby improve our balance of trade.

Direct Investment and Exports

Virtually everyone is agreed that we must improve our export position, but it seems that relatively few people recognize the critical role played by overseas private investment in the trade process. A 1985 study made by the Department of Commerce shows that more than one-third of total U.S. exports go to overseas affiliates and subsidiaries of American companies. The substantial domestic jobs generated by these exports make an important contribution to U.S. employment.

In light of these facts, the need to broaden the investment role of the smaller and mid-sized business community becomes critical. Traditionally, this segment of U.S. business has not been internationally oriented because there was ample room for growth in the domestic marketplace. But recent years have seen rapid changes both on the international scene and in the character of the U.S. market itself. And unless we take a more aggressive stance, we will not only lose these overseas markets, but we will ultimately jeopardize our ability to compete in our home markets.

Time is too limited to go into much detail, but I would like to cite an example which demonstrates the link between direct investment and exports.

Last year OPIC supported two investments made by TII industries, a medium-sized U.S. manufacturer of electronic components for the telecommunications industry, with domestic operations in New York and Puerto Rico. With OPIC assistance, TII is establishing component assembly facilities in Haiti and the Dominican Republic. The added production made possible by these Caribbean operations will enable TII to increase its U S. employment by about 25 percent. In addition, the two projects will result in the export of approximately $28.5 million of U.S. components during their first five years of operation. Output from these two projects will help TII compete with exports from the Far East.

OPIC and Small Business

OPIC's efforts to increase the participation of smaller U.S. companies into international markets have expanded steadily. During the period from 1981 to 1985, more than 35 percent of the projects insured or financed by the agency have involved smaller businesses. A record high was reached in fiscal 1986 when 45 percent fell into that category, 50 percent more than the 30 percent target in our legislation.

The increase is the result of a number of initiatives which OPIC has taken to facilitate the entry of small businesses into the international marketplace. For example, OPIC covers the political and commercial risks of companies required to post bid and performance guaranties associated with contracts to sell goods and services overseas. Without this kind of OPIC support, some small companies could not have reached the starting line to bid against Japanese and European competitors to provide such items as turbines and valves and seismological and water drilling services. Without OPIC, these companies could not have posted the guaranties that were essential to getting the contract.

In order to respond more effectively to the needs of U.S. businesses, we have sought to streamline the approval and disbursement process for our projects. The streamlined process allows OPIC to respond rapidly to the demands of small businessmen and to support them as they seek to compete in the international arena.

In addition to our basic finance and insurance programs, we have developed some special services tailored to small business needs. Among these are:

- Establishment of a data base -- "Opportunity Bank" -- that provides a matching source between U.S. companies and potential joint venture projects. There are some 1700 projects in the Bank at present.
- Creation of the Investor Information Service through which we provide information kits on the investment climate, regulations, and incentives in more than 100 developing countries.
- "Outreach" seminars in selected U.S. markets conducted in cooperation with the Department of Commerce, Export-Import Bank and Small Business Administration, to educate smaller business about opportunities and federal services.
- An ongoing communications program designed to reach the smaller business community through media, seminars, speaking engagements, etc.
- Investment missions to targeted countries. A high percentage of the participants are smaller businesses which benefit from the program sponsorship of the U.S. government.

U.S. Government Cooperation

Because OPIC's resources are limited (125 people), we have sought to strengthen our ties with other government entities concerned with foreign economic policy, including, among others, Commerce, Export-Import Bank, the Agency for International Development, and the Small Business Administration, and as a result we have been able to undertake a number of new initiatives.

This teamwork has been possible because the participating agencies recognized the value in having the U.S. government's export promotion programs directed by the Department of Commerce which has the organization and the expertise to coordinate efforts both at home and abroad.

For example, OPIC has enjoyed the full cooperation of the Department of Commerce field offices around the country, and with the U.S. Foreign Commercial Service, will co-sponsor a business investment mission to Guatemala in July. A number of U.S. small businesses are expected to participate.

Conclusion

In closing, Mr. Chairman, OPIC hopes that its innovative programs will be particularly instrumental in generating increased U.S. small business investment and exports in the developing world during the coming years. Provided the opportunity, we are confident we can help get the job done.

I would be pleased to accept any questions which you and the Committee may have.

Senator SASSER. Thank you very much Mr. Gaines. I have just a couple of questions for both of you.

Mr. Ryan, I have long been a supporter of the Eximbank and its activities through my service on the Budget Committee and also on the Appropriations Committee, but I must say the Eximbank has been attacked in the past as being a bastion of big business. I took part first hand in some efforts which led to the establishment of the small business set aside for Exim's operation.

Your statement indicates the Eximbank has turned the situation around and that you are working very hard to try to foster small business exports. Now the National Commission on Jobs and Small Business argues that Exim still does not use the full amount of loans and guarantees authorized under the set aside for small firms.

What does Exim say to that charge?

Mr. RYAN. In this area, Mr. Chairman, we are in a sense a reactive agency. We have outstanding at the moment $5 billion in preliminary commitments, commitments we have made for export transactions which have not yet gone forward. $5 billion against an authorization this year of $700 or $800 million in direct loan authority. All of those could come due on one day and we could be asked to lend that money and we would be severely embarrassed.

The point is, we have been making commitments for transactions. I might tell you I have another $2 billion on the pipeline that we are working on right now. The problem is that these deals have not been won by the U.S. exporter by and large. Some have, but most have not. And that I think goes back to the macroeconomic forces that Mr. Smart spoke about a little while ago.

It has been a bad season for U.S. exporters, ever since the beginning of the 1980's. I know that from my own company experience where we discontinued most of our export activity, because we were just shut out by the rise in the dollar.

Fortunately that has changed. We know where the dollar is now, the problem is the dollar has become so weak it is almost dangerous in the other direction. So I think, and we think at the bank, that the export climate, the situation is much better for the American exporter, including the small exporter. We think we are going to win more deals. We are more competitive in the world export arena.

We see that so far anecdotally if you will, case by case, more of our companies are getting on the short list for an export order or a transaction of some sort in overseas country. They do not win it necessarily, but they are on the short list of say three firms. That is happening again and again where it did not happen a year ago. We see it in the actual types of business we are doing State by State. California is picking up very noticeably in the export business. Minnesota, I was out there last week, very, very positive in their outlook for medical technology equipment, things of that sort.

Once again, with the fallen dollar to its present level, they are competitive. So true, we have not used up our authorization. But the administration has asked for a full billion dollars of direct loan authority, $10 billion of guarantee authority in the 1988 budget. We have gone through a careful analysis of every loan, these PCs that we have on our books, assigned a probability to that, and our feeling is that we are going to use that full budget authority in the coming year.

Our delight would be if we had to come back to the Congress halfway through the year and say we used it up, we need more, because American exports are really moving at the present time.

Senator SASSER. I am delighted to hear that American exports are really moving. That is the best news that we have heard this morning.

You indicated in questions that we sent you earlier Mr. Ryan, that you had test marketed some of your promotional activities to include small business in the export activities in four states.

What were those four States, and how did you go about selecting them?

Mr. RYAN. I was not here when we did the selection, Senator, but we centered on the contiguous states to Minnesota, which are Minnesota, Wisconsin, I can not name you the other two off hand. I was not here at the time.

We tried to, we entered those States with a small marketing team. We talked extensively with the state authorities, Department of Commerce, people, small business people, and most importantly with the exporters themselves. This was an effort that was led by John Bond, our present chairman when he first joined the bank back in 1983.

We discovered where our shortfalls were, our shortcomings, and we tried to improve them. That, I might say was the origin of our working capital guarantee program. We saw a lot of small firms that wanted to do business, but could not afford the long collection times involved in an export sale where they had to wait 6 months between the time they started preparing an order and the time they got their money.

So that is how the working capital guarantee program got off the ground. But that input from that marketing effort was also a very important influence in our starting our trade finance task force just about a year ago, where we intensively interviewed exporters, banks, around the country and came up with the changes that have been announced and will be put into effect on May 1.

Senator SASSER. Thank you very much. Mr. Gaines, just one or two quick questions for you if I may.

You indicated in your earlier, I think your agency had earlier indicated that in the number of agencies that you regularly coordinate your activities with, that the Small Business Administration was not among those agencies. Yet I thought I detected you to say in your statement today that you do coordinate with Small Business Administration. Will you amplify on that?

Mr. GAINES. The main area that we cooperate with the Small Business Association is in our seminar programs, the various geographical parts of the country where we invite SBA, Commerce, and others, to join us in trying to explain what Government services there are to promote private investment and export.

But you are right, we have no periodic meeting, we are driven by a case by case basis on project loans or insurance projects.

Senator SASSER. Would it be helpful in encouraging small business exports or small business export activity if there was a more regularized contact between OPIC and the Small Business Administration in your view?

Mr. Gaines. If that could result Mr. Chairman, in pure outreach, I would say yes. But meeting here in Washington and feeling good about each other is not the answer.

I think we have to get our message across to people who do not know about OPIC and maybe do not know all they should know about SBA.

Senator Sasser. I think you are quite right about that, and I think you are hitting the nail right on the head. We have to get the message across to people who do not know about SBA's interest in export activities, and who do not know how OPIC can be of assistance to them in moving forward in export activities.

Gentlemen, thank you very much for appearing here today and giving us the benefit of your views. We may have additional questions for you. If you do receive them, we would ask you to answer them as expeditiously as possible.

[Material follows:]

Questions from Senator Bumpers and answers by Mr. Ryan

1. Recent changes in loan and guarantee programs are only oriented towards medium and long term transactions. There appears to be no changes in short-term transactions - transactions of meaningful benefit to small and medium-sized companies in the developing countries. Are changes anticipated in short-term transactions?

Answer: The short-term programs at both Eximbank and the Foreign Credit Insurance Association have undergone dramatic changes in the past year. These short-term programs account for three-quarters of our combined business. Let me briefly outline some of these new programs:

Short-term Single Sale Policy: Enables exporters to insure a single sale to a foreign buyer or a series of sales to the same buyer. This differs from the traditional insurance concept of requiring "whole turnover" or "reasonable spread of risk" from each customer. Introduced in January 1987, we have had 38 applications for sales to diverse markets and there is widespread interest in the product.

Operating and Finance Lease Policies: Introduced in March 1987, exporters can choose between these two types of lease insurance policies, and within them may choose between coverage of commercial risks and the political risks of expropriation, confiscation, and the like. Seminars have taken place in major cities and four cases were done in April. We expect this policy to be used widely.

Association Policy: Originated for the National Machine Tool Builders Association ($100 million policy), this packages short-and medium-term cover for a trade association which will administer and market the policy for its members. The association negotiates with commercial banks to ensure that insured receivables will have the necessary financing. EXIM/FCIA and the National Machine Tool Builders have jointly marketed this policy in 5 cities, and applications are just now beginning to come in.

Bank Buyer Credit Policy: To be introduced this month, this new policy recognizes that banks often have their relationship directly with the foreign buyer of American goods rather than the U.S. exporter. The policy will provide improved cover designed specifically to meet the needs of the banking community for these buyer credit relationships.

Working Capital Guarantee Program: Instituted in late 1983 this program provides working capital support for small businesses preparing to export. Even though we have had well over 100 transactions, amounting to more than $100 million, Eximbank has thoroughly reviewed the program and has made the following changes:

(1) Preliminary commitments are now available to exporters directly so that they can choose their lenders with a commitment in hand;
(2) Application procedures have been simplified;
(3) Documentation requirements have been streamlined to be in harmony with the way commercial lenders normally secure working capital loans, and
(4) The pricing system has been changed so that the exporter's costs will be lower in most cases.

2. In the intermediary funding program under which Eximbank will act both as a stand-by source of funds and in some cases as a guarantor, how accessible would this program be to small companies?

Answer: The intermediary funding program replaces the medium term credit program and the small business credit program, but retains and enhances the provisions for small businesses. They are not required to demonstrate the existence of officially subsidized foreign competition in order to obtain credits for up to $2,500,000. Additionally, under the new program, Eximbank will lend to non-affiliated financial intermediaries at a more attractive rate for transactions below $1 million (1.5% below the OECD Consensus rates rather than 1.0%). There is more incentive in the new program to do the small transactions than in the past. Also, under the new program, we will be offering to lend to qualified non-financial intermediaries so that there will be more players in trade finance than just the commercial banks.

3. At the hearing on oversight activities of the Export-Import Bank, held on February 5, 1985 before the Senate Committee on Banking, Housing, and Urban Affairs, the then President of Eximbank said, "we improved the scope of our insurance and guarantee program by reimbursing policyholders for eligible interest lost up to the time we paid a claim. Previously we paid interest only to date of default." Would Eximbank reconsider claims where no interest was paid - either to the date of default or when claim was paid?

Answer: In the case of claims payments under our short and medium-term programs, we now pay the insured or guaranteed party the principal that has been guaranteed and we have provisions to pay guaranteed interest. Prior to May 1984, our interest coverage was contractually limited to interest accruing up to maturity. In May 1984, Eximbank improved our guarantee and insurance contracts to cover post-maturity interest. Under either contract, interest coverage was only available if interest was owed by the borrower.

In many instances in short-term credits, the insureds did not provide for interest accrual in the contract of sale but rather increased the sales price to include a financing charge for the term of repayment. The obligations obtained to evidence the debt are not interest-bearing.

The rationale for our improving interest coverage was balanced by Eximbank's likelihood of collection of interest from the obligor.

It would be most unwise for Eximbank to reconsider previously paid claims for an increase in payment for post-maturity interest coverage. Our claim payments and recovery actions were made and taken based on our contract liability. A retroactive increase in that liability would be detrimental to the position of Eximbank and the public interest.

4. For small companies with export receivables still outstanding, but which receivables do not meet the criteria as collateral for the working capital guarantee program, are alternatives available to enable such small companies to reestablish - and regain - their edge in world markets.

Answer: Eximbank has taken a liberal but responsible posture towards collateral in the working capital guarantee program. First, we allow a broader definition of acceptable collateral. In addition to export receivables, we have done transactions in the past year secured by inventory, domestic receivables, or any other assets that can be pledged. Secondly, we will guarantee up to 90% of the collateral value, while commercial banks normally will lend between 50 and 80% of collateral value without our support. This program has been credited by users such as North Atlantic Timber and Shipping Company with helping to increase its foreign sales by more than 150% in a year, and by helping the Wolverine Corporation to expand greatly its sales to China.

5. Since small businesses suffer from inadequate capital formation and are ignored by the institutions that dominate banking and finance, while Eximbank has been identifying ways to be more helpful to small business exporters and anticipating additional changes, what alternatives are there?

Answer: The answer to the small business exporter challenge is to have good programs, which we feel we now have, a good attitude on the part of staff administering them, which we have, and an expanded distribution system which we are working to develop. The key ingredient to success is to get the message out around the country with the assistance of the Department of Commerce field offices and the SBA, among others.

6. Now that Eximbank is open in more countries, is a list currently available?

Answer: In response to the Subcommittee's question, the two attached documents are submitted. The larger document, entitled "Country Limitation Schedule," is a listing of Eximbank/FCIA policy restrictions by country in effect as of May 1, 1987. This document has been distributed to all FCIA policyholders and owners of Eximbank's "A User's Guide to Eximbank and FCIA Programs." The second document, entitled "Liberalized Country Policies - May 1987," is an abbreviated version which highlights the recent policy changes as decided by the Board of Directors and effective May 1, 1987. It is important to note that these conditions could change with any major changes in country conditions or in response to legislative actions.

LIBERALIZED COUNTRY POLICIES - MAY 1987

	Previous Policy	Policy Changes
Argentina	Exceptional Basis Only	Opened short & medium term
Aruba	S/T, No excess political cover	This restriction removed
Bangladesh	Closed	Opened without conditions
Belize	M/T, Private sector requires bank guarantor	This restriction removed
Brazil	L/Cs,Bank to certify import license	This restriction removed
	S/T, No excess political cover	This restriction removed
Burkina Faso	Exceptional Basis Only	Opened for private sector
Burundi	Exceptional Basis Only	Opened without conditions
Cape Verde	Exceptional Basis Only	Opened short term
Cent. African Rep	Exceptional Basis Only	Opened for private sector
Chad	Closed	Opened for private sector
Comoros	Exceptional Basis Only	Opened for private sector
Cote d'Ivoire	M/T, Min. Fin. or Bank guarantor required	This restriction removed
Dom. Rep.	M/T, Min. Fin. or Bank guarantor required	This restriction removed
	S/T, No excess political cover	This restriction removed
	S/T, $50,000 max. DCL	Raised to $100,000 max DCL
Equatorial Guinea	Exceptional Basis Only	Opened for private sector
Ghana	M/T, Bank Guarantor required	This restriction removed
	S&M/T No DCL	Raised to $50,000 max DCL
	S/T, No excess political cover	This restriction removed
Haiti	Exceptional Basis Only	Opened for private sector
Honduras	M/T, All transactions suspended	Opened for private sector
Jordan	M/T, Private sector requires bank guarantor	This restriction removed
Kenya	M/T, Private sector requires bank guarantor	This restriction removed
	S/T, No DCL	This restriction removed
Lesotho	M/T, Min. Fin. or Bank guarantor required	This restriction removed
	S&M/T, No DCL	This restriction removed
	S/T, No excess political cover	This restriction removed
Macao	S&M/T, No DCL	This restriction removed
	S/T, No excess political cover	This restriction removed
Malawi	M/T, Min. Fin. or Bank guarantor required	This restriction removed
	S&M/T No DCL	This restriction removed
Mali	Exceptional Basis Only	Opened for private sector
Mauritania	Exceptional Basis Only	Opened short term
Mauritius	M/T, Min. Fin. or Bank guarantor required	This restriction removed
	S&M/T, No DCL	This restriction removed
Morocco	Exceptional Basis Only	Opened without conditions
Nepal	M/T, Central Bank Guarantee required	This restriction removed
	S/T, No excess political cover	This restriction removed

Legend:

S/T: Short Term (1 - 180 days)
M/T: Medium Term (181 days - 5 years)
Min. Fin.: Ministry of Finance
DCL: Discretionary Credit Limit

FOREIGN CREDIT INSURANCE ASSOCIATION
and EXPORT-IMPORT BANK OF THE UNITED STATES

COUNTRY LIMITATION SCHEDULE

Special Conditions Pertaining to Export Credit Insurance
and Bank Loan & Guarantee Programs

Revision effective May 1, 1987 Page i of vi

It is agreed that pursuant to the provisions of the export credit insurance policies and bank loans and guarantees, the Country Limitation Schedule has been amended effective May 1, 1987. This revision supersedes the November 15, 1986 Country Limitation Schedule and any amendments thereto.

Insureds, banks, and other users will be notified of any amendments to this Country Limitation Schedule in writing. A full revision is generally completed every six months to one year. All Special Conditions should be reviewed as many have been amended.

GENERAL CONDITIONS

Exceptions to any condition or limitations contained herein must be obtained in writing from FCIA or Eximbank.

FCIA and Eximbank reserve the right to set additional conditions for any particular buyer or issuing bank including the right to set a different percentage of coverage. FCIA and Eximbank also reserve the right to reject any particular application.

Effective Date of
this Endorsement May 1, 1987 No. CLS-5/87
12:01 A.M. Standard Time

Issued to:

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COUNTRY LIMITATION SCHEDULE

AFGHANISTAN

Coverage is legislatively prohibited.

ALBANIA

Coverage is legislatively prohibited.

ALGERIA

SHORT-TERM COMPREHENSIVE & POLITICAL: No special conditions.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: Guarantee of bank acceptable to FCIA or Eximbank is required.

ANDORRA (see FRANCE)

ANGOLA

Coverage is legislatively prohibited.

ANGUILLA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or Special Buyer Limit.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Anguilla (Cont'd.)

FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

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ANTIGUA & BARBUDA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

No coverage for public buyers.

Excess political coverage is not available.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider this coverage upon application.

No coverage for public buyers.

BANK LETTER OF CREDIT: No coverage for Government-owned banks.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

No coverage for public buyers.

===

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

ARGENTINA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

Coverage is limited to irrevocable letters of credit.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

Coverage is limited to irrevocable letters of credit.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

LONG TERM: Coverage is not available.

ARUBA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Aruba (Cont'd.)

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

AUSTRALIA

No special conditions.

AUSTRIA

No special conditions.

BAHAMAS

No special conditions.

BAHRAIN

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are limited to $50,000 for non-sovereign buyers. FCIA will consider a higher limit upon application for a Special Buyer Credit Limit.

SHORT-TERM POLITICAL: Coverage is limited to $50,000. FCIA will consider a higher limit upon application for a Special Buyer Limit or in a Country Limits of Liability Endorsement.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, the discretionary credit limit is $50,000. FCIA will consider a higher limit upon application for a Special Buyer Credit Limit.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

BANGLADESH

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Evidence of approval by government authority to contract external debt is required. In addition, the guarantee of the Ministry of Finance is required for public buyers.

BARBADOS

No special conditions.

BELGIUM

No special conditions.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

BELIZE

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

BENIN

Coverage is legislatively prohibited.

BERMUDA

No special conditions.

BHUTAN

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Bhutan (Cont'd.)

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

==

BOLIVIA

Coverage not available.

==

BOTSWANA

No special conditions.

==

BRAZIL

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are limited to $50,000. FCIA will consider a higher limit upon application for a Special Buyer Credit Limit.

Buyer must have a valid import license prior to shipment.

SHORT-TERM POLITICAL: Coverage is limited to $50,000. FCIA will consider a higher limit upon application for a Special Buyer Limit or in a Country Limits of Liability Endorsement.

Buyer must have a valid import license prior to shipment.

BANK LETTER OF CREDIT: No special conditions.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and ST
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) an CSM(MT); Eximbank direct loans, intermed loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loan and guarantees.

Brazil (Cont'd.)

MEDIUM & LONG TERM: All transactions being held pending settlement of arrears and claims due to FCIA and Eximbank.

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BRITISH VIRGIN ISLANDS

No special conditions.

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BRUNEI

No special conditions.

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BULGARIA

Coverage is legislatively prohibited.

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BURKINA FASO

SHORT-TERM COMPREHENSIVE & POLITICAL: No special conditions.

BANK LETTER OF CREDIT: No coverage for Government-owned banks.

MEDIUM & LONG TERM: No coverage for public buyers.

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BURMA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a

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SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Burma (Cont'd.)

Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

The guarantee of the Central Bank is required for all buyers.

BURUNDI

No special conditions.

CAMBODIA

Coverage is legislatively prohibited.

CAMEROON

No special conditions.

CANADA

No special conditions.

CANARY ISLANDS (see SPAIN)

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

CAPE VERDE ISLANDS

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are limited to $50,000. FCIA will consider a higher limit upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM POLITICAL: Coverage is limited to $50,000. FCIA will consider a higher limit upon application for a Special Buyer Limit or in a Country Limits of Liability Endorsement.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: Coverage not available.

CAYMAN ISLANDS

No special conditions.

CENTRAL AFRICAN REPUBLIC

SHORT-TERM COMPREHENSIVE & POLITICAL: No special conditions.

BANK LETTER OF CREDIT: No coverage for Government-owned banks.

MEDIUM & LONG TERM: No coverage for public buyers.

CHAD

SHORT-TERM COMPREHENSIVE & POLITICAL: No special conditions.

BANK LETTER OF CREDIT: No coverage for Government-owned banks.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Chad (Cont'd.)

MEDIUM & LONG TERM: No coverage for public buyers.

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CHILE

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

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CHINA (TAIWAN)

No special conditions.

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CHINA, PEOPLE'S REPUBLIC OF

SHORT-TERM COMPREHENSIVE & POLITICAL: Coverage is limited to transactions guaranteed by the Bank of China or financed by irrevocable letters of credit issued by the Bank of China, payable in U.S. dollars in the United States.

BANK LETTER OF CREDIT: Coverage is limited to irrevocable bank letters of credit issued by the Bank of China. Letters of credit are required to contain the following wording: "We

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SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

China, People's Republic of (Cont'd.)

hereby engage with the drawers, end-users, and bona fide holders of draft(s) drawn under and in accordance with the terms of this credit that the same shall meet with due honor on presentation of the documents as specified to Bank of China. All drafts under this credit must be endorsed on the back thereof."

MEDIUM TERM: Guarantee of Bank of China is required.

LONG TERM: The Eximbank-Bank of China Operating Agreement provides for the Bank of China as either obligor or guarantor; for some transactions, Eximbank will consider other Chinese entities in place of the Bank of China.

COLOMBIA

No special conditions.

COMOROS

SHORT-TERM COMPREHENSIVE & POLITICAL: No special conditions.

BANK LETTER OF CREDIT: No coverage for Government-owned banks.

MEDIUM & LONG TERM: No coverage for public buyers.

CONGO

Coverage is legislatively prohibited.

COOK ISLANDS

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a

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SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Cook Islands (Cont'd.)

Special Buyer Credit Limit.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

COSTA RICA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are limited to $20,000. FCIA will consider a higher limit upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

Coverage is not available through FCIA's regular programs for transactions over $200,000. For these transactions, the importer must contact the Central Bank for information on the existing special bank-to-bank insurance facilities.

SHORT-TERM POLITICAL: Coverage is limited to $20,000. FCIA will consider a higher limit upon application for a Special Buyer Limit or in a Country Limits of Liability Endorsement.

Coverage is not available through FCIA's regular programs for transactions over $200,000. For these transactions, the importer must contact the Central Bank for information on the existing special bank-to-bank insurance facilities.

BANK LETTER OF CREDIT: Coverage is not available through FCIA's regular programs for transactions over $200,000. For these

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SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Costa Rica (Cont'd.)

transactions, the importer must contact the Central Bank for information on the existing special bank-to-bank insurance facilities.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Public sector transactions are suspended pending payment of transfer claims and public sector arrears.

Coverage is not available through FCIA and Eximbank's regular programs for transactions over $200,000. For these transactions, the importer must contact the Central Bank for information on the existing special bank-to-bank facilities.

COTE D'IVOIRE

No special conditions.

CUBA

Coverage is legislatively prohibited.

CYPRUS

No special conditions.

CZECHOSLOVAKIA

Coverage is legislatively prohibited.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

DENMARK

No special conditions.

DJIBOUTI

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

DOMINICA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.
BANK LETTER OF CREDIT: No special conditions.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Dominica (Cont'd.)

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

DOMINICAN REPUBLIC

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are limited to $100,000. FCIA will consider a higher limit upon application for a Special Buyer Credit Limit.

SHORT-TERM POLITICAL: Coverage is limited to $100,000. FCIA will consider a higher limit upon application for a Special Buyer Limit or in a Country Limits of Liability Endorsement.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Public buyer transactions are suspended until settlement of arrears and claims due to FCIA and Eximbank.

ECUADOR

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are limited to $50,000. FCIA will consider a higher limit upon application for a Special Buyer Credit Limit.

Buyer must have a valid import license prior to shipment.

Excess political coverage is not available.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Ecuador (Cont'd.)

SHORT-TERM POLITICAL: Coverage is limited to $50,000. FCIA will consider a higher limit upon application for a Special Buyer Limit or in a Country Limits of Liability Endorsement.

Buyer must have a valid import license prior to shipment.

BANK LETTER OF CREDIT: Issuing bank must certify to the insured bank that the buyer has a valid import license.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Buyer must have a valid import license prior to shipment.

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EGYPT

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

Coverage for public buyers is suspended.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

Coverage for public buyers is suspended.

BANK LETTER OF CREDIT: Coverage for Government-owned banks is suspended.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will

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SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Egypt (Cont'd.)

consider coverage upon application for a Special Buyer Credit Limit.

Coverage for public buyers is suspended.

EL SALVADOR

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

Coverage is not available through FCIA's regular programs for transactions over $100,000. For these transactions, the importer must contact the Central Bank for information on the existing special bank-to-bank insurance facilities.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

Coverage is not available through FCIA's regular programs for transactions over $100,000. For these transactions, the importer must contact the Central Bank for information on the existing special bank-to-bank insurance facilities.

BANK LETTER OF CREDIT: Coverage is not available through FCIA's regular programs for transactions over $100,000. For these transactions, the importer must contact the Central Bank for information on the existing special bank-to-bank insurance facilities.

MEDIUM TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn.

Coverage is not available through FCIA and Eximbank's regular

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SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

El Salvador (Cont'd.)

programs for medium-term transactions. For these transactions, the importer must contact the Central Bank for information on the existing special bank-to-bank facilities.

LONG TERM: No special conditions.

EQUATORIAL GUINEA

SHORT-TERM COMPREHENSIVE & POLITICAL: No special conditions.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: No coverage for public buyers.

ESTONIA

Coverage is legislatively prohibited.

ETHIOPIA

Coverage is legislatively prohibited.

FALKLAND ISLANDS (see UNITED KINGDOM)

FAROE ISLANDS (see DENMARK)

FIJI

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Fiji (Cont'd.)

Special Buyer Credit Limit.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or in a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

FINLAND

No special conditions.

FRANCE

No special conditions.

FRENCH GUIANA (see FRANCE)

FRENCH POLYNESIA

SHORT-TERM COMPREHENSIVE & POLITICAL: No special conditions.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

GABON

No special conditions.

GAMBIA

Coverage not available.

GERMANY, EAST

Coverage is legislatively prohibited.

GERMANY, WEST

No special conditions.

GHANA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are limited to $50,000. FCIA will consider a higher limit upon application for a Special Buyer Credit Limit.

Buyer must have a valid import license prior to shipment.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or in a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, the discretionary credit limit is $50,000. FCIA will

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SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Ghana (Cont'd.)

consider a higher limit upon application for a Special Buyer Credit Limit.

The guarantee of the Central Bank is required for public buyers.

GIBRALTAR (see UNITED KINGDOM)

GREECE

No special conditions.

GREENLAND (see DENMARK)

GRENADA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

GUATEMALA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are limited to $100,000. FCIA will consider a higher limit upon application for a Special Buyer Credit Limit.

Coverage of private buyers is limited to irrevocable letters of credit approved by the Central Bank.

Excess political coverage is not available.

Coverage is not available through FCIA's regular programs for transactions over $100,000. For these transactions, the importer must contact the Central Bank for information on the existing special bank-to-bank insurance facilities.

SHORT-TERM POLITICAL: Coverage is limited to $100,000. FCIA will consider a higher limit upon application for a Special Buyer Limit or in a Country Limits of Liability Endorsement.

Coverage of private buyers is limited to irrevocable letters of credit approved by the Central Bank.

Coverage is not available through FCIA's regular programs for transactions over $100,000. For these transactions, the importer must contact the Central Bank for information on the existing special bank-to-bank insurance facilities.

BANK LETTER OF CREDIT: Issuing bank must certify to the insured bank that the transaction is approved by the Central Bank.

Coverage is not available through FCIA's regular programs for transactions over $100,000. For these transactions, the importer must contact the Central Bank for information on the existing special bank-to-bank insurance facilities.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM)

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Guatemala (Cont'd.)

policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

All public sector transactions are suspended pending payments of transfer claims and public sector arrears.

Coverage is not available through FCIA and Eximbank's regular programs for transactions over $100,000. For these transactions the importer must contact the Central Bank for information on the existing special bank-to-bank facilities.

GUINEA

Coverage not available.

GUINEA-BISSAU

Coverage not available.

GUYANA

Coverage is legislatively prohibited.

HAITI

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

No coverage for public buyers.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Haiti (Cont'd.)

Coverage is limited to irrevocable letters of credit.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

No coverage for public buyers.

Coverage is limited to irrevocable letters of credit.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

No coverage for public buyers.

HONDURAS

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

Coverage is not available through FCIA's regular programs for transactions over $100,000. For these transactions, the importer must contact the Central Bank for information on the existing special bank-to-bank insurance facilities.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

Coverage is not available through FCIA's regular programs for

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SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Honduras (Cont'd.)

transactions over $100,000. For these transactions, the importer must contact the Central Bank for information on the existing special bank-to-bank insurance facilities.

BANK LETTER OF CREDIT: Coverage is not available through FCIA's regular programs for transactions over $100,000. For these transactions, the importer must contact the Central Bank for information on the existing special bank-to-bank insurance facilities.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

All public sector transactions suspended pending payment of transfer claims and public sector arrears.

Coverage is not available through FCIA and Eximbank's regular programs for transactions over $100,000. For these transactions the importer must contact the Central Bank for information on the existing special bank-to-bank facilities.

HONG KONG

No special conditions.

HUNGARY

SHORT-TERM COMPREHENSIVE. Discretionary credit limits are limited to $50,000. FCIA will consider a higher limit upon application for a Special Buyer Credit Limit.

Coverage is limited to irrevocable letters of credit issued by either the National Bank of Hungary (NBH) or the Hungarian Foreign Trade Bank (HFTB) payable in U.S. dollars in the United

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Hungary (Cont'd.)

States, or transactions guaranteed by either the National Bank of Hungary or the Hungarian Foreign Trade Bank.

SHORT-TERM POLITICAL: Coverage is limited to $50,000. FCIA will consider a higher limit upon application for a Special Buyer Limit or in a Country Limits of Liability Endorsement.

Coverage is limited to irrevocable letters of credit issued by either the National Bank of Hungary (NBH) or the Hungarian Foreign Trade Bank (HFTB) payable in U.S. dollars in the United States, or transactions guaranteed by either the National Bank of Hungary or the Hungarian Bank of Hungary.

BANK LETTER OF CREDIT: Issuing bank must be either the National Bank of Hungary (NBH) or the Hungarian Foreign Trade Bank (HFTB).

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are limited to $50,000. FCIA will consider a higher limit upon application for a Special Buyer Credit Limit.

Coverage is limited to transactions guaranteed by either the National Bank of Hungary (NBH) or the Hungarian Foreign Trade Bank (HFTB).

ICELAND

No special conditions.

INDIA

No special conditions.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

INDONESIA

No special conditions.

IRAN

Coverage not available.

IRAQ

Coverage not available.

IRELAND

No special conditions.

ISRAEL

No special conditions.

ITALY

No special conditions.

JAMAICA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Jamaica (Cont'd.)

All transactions require clearance by the Bank of Jamaica/JECIC.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

All transactions require clearance by the Bank of Jamaica/JECIC.

BANK LETTER OF CREDIT: All transactions require clearance by the Bank of Jamaica/JECIC.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

All transactions require clearance by Bank of Jamaica/JECIC.

JAPAN

No special conditions.

JORDAN

SHORT-TERM COMPREHENSIVE & POLITICAL: No special conditions.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: The guarantee of the Ministry of Finance is required for public buyers.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

KENYA

SHORT-TERM COMPREHENSIVE & POLITICAL: No special conditions.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: Guarantee of Ministry of Finance required for public sector buyers.

KIRIBATI

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

KOREA, NORTH

Coverage is legislatively prohibited.

KOREA, SOUTH

No special conditions.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

KUWAIT

No special conditions.

LAOS

Coverage is legislatively prohibited.

LATVIA

Coverage is legislatively prohibited.

LEBANON

Coverage is not available.

LESOTHO

No special conditions.

LIBERIA

Coverage not available.

LIBYA

Coverage is legislatively prohibited.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

COUNTRY LIMITATION SCHEDULE

LIECHTENSTEIN

No special conditions.

LITHUANIA

Coverage is legislatively prohibited.

LUXEMBOURG

No special conditions.

MACAO

No special conditions.

MADAGASCAR

Coverage not available.

MADEIRA ISLANDS (see PORTUGAL)

MALAWI

No special conditions.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

MALAYSIA

No special conditions.

MALDIVE ISLANDS

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

MALI

SHORT-TERM COMPREHENSIVE & POLITICAL: No special conditions.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: No coverage for public buyers.

MALTA

No special conditions.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT): Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

MARSHALL ISLANDS

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

MAURITANIA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are limited to $50,000. FCIA will consider a higher limit upon application for a Special Buyer Credit Limit.

SHORT-TERM POLITICAL: Coverage is limited to $50,000. FCIA will consider a higher limit upon application for a Special Buyer Limit or in a Country Limits of Liability Endorsement.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: No coverage is available.

MAURITIUS

No special conditions.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

MEXICO

No special conditions.

MICRONESIA, FEDERATED STATES OF

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

MONGOLIA

Coverage is legislatively prohibited.

MONTSERRAT

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a

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SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Montserrat (Cont'd.)

Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

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MOROCCO

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

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MOZAMBIQUE

Coverage is legislatively prohibited.

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SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CMB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

NAURU

No special conditions.

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NEPAL

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

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NETHERLANDS

No special conditions.

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NETHERLANDS ANTILLES

No special conditions.

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NEW CALEDONIA

SHORT-TERM COMPREHENSIVE & POLITICAL: No special conditions.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

New Caledonia (Cont'd.)

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

NEW ZEALAND

No special conditions.

NICARAGUA

Coverage is legislatively prohibited.

NIGER

SHORT-TERM COMPREHENSIVE & POLITICAL: No special conditions.

BANK LETTER OF CREDIT: No coverage for Government-owned banks.

MEDIUM & LONG TERM: No coverage for public buyers.

NIGERIA

All coverage is suspended pending payment of transfer claims and arrears.

NORWAY

No special conditions.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

OMAN

No special conditions.

PAKISTAN

SHORT-TERM COMPREHENSIVE & POLITICAL: No special conditions.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: The guarantee of the Bank of Pakistan is required for public buyers.

PANAMA

No special conditions.

PAPUA NEW GUINEA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

COUNTRY LIMITATION SCHEDULE

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Papua New Guinea (Cont'd.)

Limit.

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PARAGUAY

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are limited to $50,000. FCIA will consider a higher limit upon application for a Special Buyer Credit Limit.

SHORT-TERM POLITICAL: Coverage is limited to $50,000. FCIA will consider a higher limit upon application for a Special Buyer Limit or in a Country Limits of Liability Endorsement.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, the discretionary credit limit is $50,000. FCIA will consider a higher limit upon application for a Special Buyer Credit Limit.

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PERU

Coverage not available.

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PHILIPPINES

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Philippines (Cont'd.)

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

The guarantee of the Ministry of Finance, Republic of Philippines, is required.

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POLAND

Coverage not available.

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PORTUGAL

No special conditions.

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QATAR

No special conditions.

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REUNION (see FRANCE)

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ROMANIA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Romania (Cont'd.)

Coverage is limited to irrevocable letters of credit issued by the Romanian Bank of Foreign Trade payable in U.S. dollars in the United States or transactions guaranteed by the Romanian Bank of Foreign Trade.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

Coverage is limited to irrevocable letters of credit issued by the Romanian Bank of Foreign Trade payable in U.S. dollars in the United States or transactions guaranteed by the Romanian Bank of Foreign Trade.

BANK LETTER OF CREDIT: Coverage is limited to irrevocable letters of credit issued by the Romanian Bank of Foreign Trade payable in U.S. dollars in the United States.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

The guarantee of the Romanian Bank of Foreign Trade is required.

RWANDA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM)

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CMB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans and guarantees.

Rwanda (Cont'd.)

policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

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SAO TOME & PRINCIPE

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are limited to $50,000. FCIA will consider a higher limit upon application for a Special Buyer Credit Limit.

SHORT-TERM POLITICAL: Coverage is limited to $50,000. FCIA will consider a higher limit upon application for a Special Buyer Limit or in a Country Limits of Liability Endorsement.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: Coverage is not available.

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SAUDI ARABIA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are limited to $50,000 for non-sovereign buyers. FCIA will consider a higher limit upon application for a Special Buyer Credit Limit.

SHORT-TERM POLITICAL: No special conditions.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are limited to $50,000 for non-sovereign buyers. FCIA will consider a higher limit upon application for a Special Buyer Credit Limit.

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SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

SENEGAL

SHORT-TERM COMPREHENSIVE & POLITICAL: No special conditions.

BANK LETTER OF CREDIT: No coverage for Government-owned banks.

MEDIUM & LONG TERM: No coverage for public buyers.

SEYCHELLES

No special conditions.

SIERRA LEONE

Coverage not available.

SINGAPORE

No special conditions.

SOLOMON ISLANDS

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Solomon Islands (Cont'd.)

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

The guarantee of the Central Bank is required for public borrowers.

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SOMALIA

Coverage not available.

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SOUTH AFRICA

NOTE: No coverage is available for any export which would contribute to the maintenance and enforcement of apartheid. Further, no coverage is available for public buyers unless the President determines that significant progress has been made in eliminating the apartheid system. For coverage for private buyers, the South African buyer, prior to submission of an application, must complete and return to the U.S. Embassy a questionnaire regarding compliance with these regulations. FCIA must have received notice of compliance before FCIA will process any application for insurance coverage in South Africa. A questionnaire and compliance are not required for any South African private buyer which is majority owned by South African blacks or other nonwhite South Africans. However, evidence of the buyer's ownership must be submitted instead.

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Buyer must have valid import license prior to shipment.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a

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SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

South Africa (Cont'd)

Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

Buyer must have a valid import license prior to shipment.

BANK LETTER OF CREDIT: Buyer must meet criteria set forth in above NOTE.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Buyer must have a valid import license prior to shipment.

SPAIN

No special conditions.

SRI LANKA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

MEDIUM & LONG TERM: Coverage not available.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

COUNTRY LIMITATION SCHEDULE

ST. HELENA (see UNITED KINGDOM)

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ST. KITTS-NEVIS

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

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ST. LUCIA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM)

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

St. Lucia (Cont'd.)

policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

ST. PIERRE & MIQUELON (see FRANCE)

ST. VINCENT & GRENADINES

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

SUDAN

Coverage not available.

SURINAME

Coverage is legislatively prohibited.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

SWAZILAND

No special conditions.

SWEDEN

No special conditions.

SWITZERLAND

No special conditions.

SYRIA

Coverage is legislatively prohibited.

TANZANIA

Coverage not available.

THAILAND

No special conditions.

TOGO

SHORT-TERM COMPREHENSIVE & POLITICAL: No special conditions.

BANK LETTER OF CREDIT: No coverage for Government-owned banks.

MEDIUM & LONG TERM: No coverage for public buyers.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT): Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

TONGA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

TRINIDAD & TOBAGO

No special conditions.

TUNISIA

No special conditions.

TURKEY

SHORT-TERM COMPREHENSIVE & POLITICAL: No special conditions.

BANK LETTER OF CREDIT: No special conditions.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Turkey (Cont'd.)

MEDIUM & LONG TERM: Guarantee of the Undersecretariat for the Treasury and Foreign Trade is required for public buyers.

TURKS & CAICOS ISLANDS

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

UGANDA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Uganda (Cont'd.)

MEDIUM TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

LONG TERM: No coverage is available.

UNITED ARAB EMIRATES

SHORT-TERM COMPREHENSIVE & POLITICAL: No special conditions.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: No coverage for public sector buyers in: Ajman, Fujairah, Ras al Khaimah, Sharjah, and Umm al Qaiwain.

No special conditions for Abu Dhabi and Dubai.

UNITED KINGDOM

No special conditions.

URUGUAY

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are limited to $50,000. FCIA will consider a higher limit upon application for a Special Buyer Credit Limit.

SHORT-TERM POLITICAL: Coverage is limited to $50,000. FCIA will consider a higher limit upon application for a Special Buyer Limit or in a Country Limits of Liability Endorsment.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are limited to $50,000.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Uruguay (Cont'd.)

FCIA will consider a higher limit upon application for a Special Buyer Credit Limit.

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USSR

Coverage is legislatively prohibited.

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VANUATU

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

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VATICAN CITY

No special conditions.

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VENEZUELA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Venezuela (Cont'd.)

Excess political coverage is not available.

Coverage is limited to irrevocable letters of credit.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

Coverage is limited to irrevocable letters of credit.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Authorization and registration of transactions with the Superintendency of Foreign Investments is required.

VIETNAM

Coverage is legislatively prohibited.

WEST INDIES, FRENCH (see FRANCE)

WESTERN SAMOA

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Western Samoa (Cont'd.)

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

YEMEN ARAB REPUBLIC

SHORT-TERM COMPREHENSIVE: Discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

Excess political coverage is not available.

SHORT-TERM POLITICAL: No coverage unless specified by FCIA in a Country Limits of Liability Endorsement or a Special Buyer Limit. FCIA will consider coverage upon application.

BANK LETTER OF CREDIT: No special conditions.

MEDIUM & LONG TERM: For insureds with master (CMR or CSM) policies, discretionary credit limits are withdrawn. FCIA will consider coverage upon application for a Special Buyer Credit Limit.

YEMEN, PEOPLES DEMOCRATIC REPUBLIC OF

Coverage is legislatively prohibited.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

YUGOSLAVIA

SHORT-TERM COMPREHENSIVE: Each transaction must be the obligation of or guaranteed by one or more of the following banks: Jugobanka, Beogradska Banka, Ljubljanska Banka, Privredna Banka Sarajevo, Udruzeno Banka Hrvatske, or other acceptable institution.

Discretionary credit limits are limited to $50,000. FCIA will consider a higher limit upon application for a Special Buyer Credit Limit.

Coverage is limited to irrevocable letters of credit.

SHORT-TERM POLITICAL: Each transaction must be the obligation of or guaranteed by one or more of the following banks: Jugobanka, Beogradska Banka, Ljubljanska Banka, Privredna Banka Sarajevo, Udruzeno Banka Hrvatske, or other acceptable institution.

Coverage is limited to $50,000. FCIA will consider a higher limit upon application for Special Buyer Limit or in a Country Limits of Liability Endorsement.

Coverage is limited to irrevocable letters of credit.

BANK LETTER OF CREDIT: Coverage is limited to irrevocable letters of credit issued by one or more of the following banks: Jugobanka, Beogradska Banka, Ljubljanska Banka, Privredna Banka Sarajevo, Udruzeno Banka Hrvatska, or other acceptable banks.

MEDIUM & LONG TERM: Each transaction must be the obligation of or guaranteed by one or more of the following banks: Jugobanka, Beogradska Banka, Ljubljanska Banka, Privredna Banka Sarajevo, Udruzeno Banka Hrvatske, or other acceptable institution.

For insureds with master (CMR or CSM) policies, discretionary

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SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Yugoslavia (Cont'd.)

credit limits are withdrawn. FCIA will consider a higher limit upon application for a Special Buyer Credit Limit.

ZAIRE

Coverage not available.

ZAMBIA

SHORT & MEDIUM TERM: No coverage for public sector transactions.

LONG TERM: Coverage not available.

ZIMBABWE

No special conditions.

SHORT-TERM COMPREHENSIVE:	Including policy types BD, CMR(ST), CNB, CS, CSD, CSM(ST), CV, NB, SB, US, and STSB.
SHORT-TERM POLITICAL:	Policy types SP and PV only.
BANK LETTER OF CREDIT:	Policy type BLC only.
MEDIUM TERM:	All medium-term policy types, CMR(MT) and CSM(MT); Eximbank direct loans, intermediary loans, and guarantees.
LONG TERM:	Eximbank direct loans, intermediary loans, and guarantees.

Questions from Senator Sasser and answers by Mr. Gaines

Question

Many of our trading partners have offices which parallel the efforts of your office. Based on the amount of foreign investment in many states, including my home state of Tennessee, we can see that your counterparts are often very successful in their efforts to generate investment in this country. How successful would you say your efforts are in comparison to some of your foreign counterparts? How do the overseas investment offices in other countries differ from your operations? Do such differences warrant Congressional attention in your opinion?

Answer

While there are significant assymmetries among the political risk and finance programs operated by OPIC and its counterparts in other OECD countries, a number of important distinctions are apparent. In general, OPIC's programs for political risk insurance, project financing and other investment encouragement services are not fully competitive with those of its counterpart agencies in other OECD countries. OPIC political risk insurance program, although more comprehensive than others in terms of coverages offered, is more constrained by foreign and domestic policy mandates as well as underwriting considerations than the Japanese program. OPIC's finance program, while increased in capacity, is less flexible than its counterparts in terms of terms and conditions and less supportive with such important auxiliary services as funds for feasibility studies, training and other investment encouragement services.

Unlike OPIC, which operates its political risk insurance and project financing programs in a financially interdependent and self-sustaining manner, its Japanese and European counterparts are not self-sustaining, and therefore have external as well as internally-generated resources that they are able to make available to investors on more generous terms and conditions than can OPIC.

Political Risk Insurance. With respect to political risk insurance issued, OPIC's program is second among all other national political risk insurance programs to that of Japan. As of the end of 1985 Japan's EID had an outstanding portfolio of insured investment valued at $7.4 billion, a volume 57% larger than OPIC's portfolio of $4.7 billion. The larger volume of insurance insured by Japan is accounted for by a number of factors lower premium rates, portfolio distribution, and many fewer policy restrictions. EID is not restricted by considerations of host country economic development, environmental assessments, human rights, worker rights, Japanese industry interests or other such concerns to which OPIC is statutorily committed. Rather, its policy mandate is simply to promote Japanese exports and to secure needed raw materials for Japan's industries.

While European political risk insurance agencies are considerably smaller than EID or OPIC in terms of the volume of investment insured, they have issued, on a collective basis, approximately the same volume of insurance as has OPIC. In general, Europe's political risk insurance rates are between two and three times lower than OPIC's and the programs operate with many fewer restrictions. On the other hand, many of the European programs do not offer the range of specialized coverage that OPIC offers for energy, contracting, leasing, licensing and other modes of investment.

Project Finance. The United States' major competitor in financing private investments in developing countries is Japan. The Japanese program, which is administered by both Japan ExIm and the OECF, had an outstanding finance portfolio of $ 7.1 billion as of FY 1985 (including direct loans, loan guaranties and equity investments) compared to $ 590 million for OPIC's finance program. In 1985 Japan ExIm and OECF collectively issued $ 722 million in financing for projects in developing countries involving direct Japanese private investment, while OPIC issued $166 million in loans and loan guaranties during FY 1985. (In FY 1986 OPIC continued to fully utilize its direct loan and loan guaranty authorities which amounted to $152.9 million).

With respect to direct loans, (including loans with equity features) OPIC's finance program ranks a distant fourth behind Japan's, the Federal Republic of Germany's and the United Kingdom's programs. Japan's ExIm Bank alone loaned $630 million for projects in developing countries during FY 1985. The German Company for Economic Cooperation (DEG) issued $42 million in direct loans during 1985 while the Commonwealth Development Corporation (CDC) issued $142 million in loans (including equity investments). OPIC committed $15 million to direct loans (its authorized amount) in FY 1985 and fully utilized its direct loan authority of $13.6 million in FY 1986.

Reliance on funds borrowed from government treasuries at low interest or on funds administered for government agencies or trusts enables OPIC's counterpart agencies to lend at concessionary terms and to use part of their funding for equity investment. While OPIC lends at commercial or near-commercial rates and is not authorized to make equity investments, OECF's recent loans to Japanese corporations have carried an average interest rate of 5%, while Japan ExIm's investment credit rates range from 6% to 9%. Softer conditions are available for loans for natural resource development. While Germany's DEG lends funds at market nor near market rates, it supplements these commitments with equity investments in projects that would not otherwise be able to qualify for strictly commercial financing. In fact, all of OPIC's major counterpart financing agencies, with the exception of Japan's Exim, make equity investments in the projects they finance.

Direct project financing such as that undertaken by DEG and CDC involves a labor-intensive effort to identify eligible projects, evaluate them and bring them to fruition. To accomplish this, DEG had a staff of 258 in 1985 while CDC employed 195. OPIC's Finance Department operates with a staff of approximately 20 employees.

Additional details concerning OPIC's counterpart project financing agencies are contained in a forthcoming study initially contracted by OPIC in 1984 which is due to be published by the Georgetown Law Institute in June 1987.*

Auxiliary Services. In addition to providing political risk insurance and financing, OPIC's counterpart agencies have a vast array of auxiliary services at their disposal to encourage and facilitate investments in developing countries. All of the major OECD project financing agencies provide investors with loans and/or grants to conduct feasibility studies of prospective projects. Such studies are valuable not only in assessing project viability and thus increasing the probability that a project financed by the agency will succeed, but also in securing investment opportunities against foreign competition.

Canada, which is one of the few industrialized countries that does not have a project financing program, offers its investors a generous package of pre-investment and investment encouragement services through the Industrial Cooperation Program (ICP) of the Canadian International Development Agency. The ICP Program consists of six major components: starter studies; viability studies; project preparation; technical assistance; technology transfer; and project support.

In FY 1986 the ICP provided $40 million in grants for pre-investment and investment encouragement services for more than 200 projects. The program's authorization was increased to $44 million for FY 1987. In contrast, OPIC's Investment Encouragement and Special Projects programs, authorized under sections 234(d) and (e) of the Foreign Assistance Act, issued $1.5 million in loans and grants for such services during the FY 1985 fiscal year. The program was suspended for budgetary reasons in early FY 1986.

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*Fariborz Ghadar, et. al., A Comparative Study of the Official Programs of Selected OECD Countries that Provide Financing to Private Investors in Developing Countries.

Senator SASSER. Our final panel for the day will consist of Mr. Robert Shockey, the chief executive officer of the Chapman Chemical Co. in Memphis, TN, and Mr. Tom Watson, chairman and managing partner of Watson and Rice in Washington, DC.

Gentlemen, I want to welcome you here, and I especially want to welcome my great friend Bob Shockey. We are delighted to have him here today traveling all the way up from Memphis, TN. He is the most important person at these hearings because he has the capacity, Mr. Watson to vote for me in the State of Tennessee, and none of these other gentlemen did. So we are delighted to see you. Mr. Shockey, we are going to start with you today.

STATEMENT OF ROBERT SHOCKEY, CHIEF EXECUTIVE OFFICER, CHAPMAN CHEMICAL CO., MEMPHIS, TN

Mr. SHOCKEY. Thank you Mr. Chairman, it is a pleasure to be up here today and work with you. I am certainly honored to be here representing the small business, and to give you my views and some of the views that have been given to me by some of the people in the Midsouth.

As a small businessman in the Midsouth, I contacted numerous small business representatives in our area, asking them for their view on current Government export programs. I am happy to share some of those views with you today.

During my inquiries, I found that very few small firms have any knowledge of Government export assistance available to them. And of those who were aware, their knowledge was generally limited regarding Government assistance and how to obtain it.

Federal, State and local export assistance agencies must coordinate activities aimed at helping small businesses build international markets. I believe that it is essential to educate the small business exporter as to what Government help is currently available to him and how to use it.

Presently we have seven Government agencies providing export assistance. A small businessman is kind of like a kid in a candy store. He does not know where to begin and by the time he has contacted all seven of them, he for sure has a bellyache.

From my own experience, when I started into exporting pesticides, I was not aware of the Government assistance available to me, and had it not been for having friends in foreign countries who encouraged and assisted me, we would have had neither the time nor the money to become an exporter until much later in my company's growth. It was almost impossible to get financial assistance through local banks. You have heard the old saying, a banker is someone who will lend you an umbrella when the sun is shining and takes it back when it rains. Well, they would not even lend me an umbrella when the sun was shining. I am sure that most small businessmen have the same problem. Therefore, I feel the small businessman needs more hands on assistance in exporting both through education and funding.

It seems that many good programs targeted for small businesses are dropped due to lack of Government funding. A prime example of this was the 1986 Minority Export Trading Company Program under the U.S. Department of Commerce which would have given small businesses the hands on assistance they need. Improvements have been made in some export programs such as the Foreign Credit Insurance Association export insurance policy, where export sales are guaranteed for political and commercial risks. However, without educating the small businessman to these improvements, their success will be limited.

After being educated of the Government programs and the funding available, the American small businessman still finds it very hard to compete internationally, due to high manufacturing costs, the cost of liability insurance and government red tape. To quote one of my fellow mid-southerners, Mr. Allen Goode, vice president of First Tennessee Bank—

> It has been our experience in the past that entirely too much paperwork and/or red tape has been involved in the export assistance programs of our Government.
>
> While we realize that the taxpayers are not in favor of giving the agencies carte blanche to dole out payments or incentives that are unsubstantiated, it somehow should be made easier for a small businessman to get assistance.

Further, many firms feel that U.S. Government regulations are a deterrent to exporting. I can personally attest to this in the pesticide manufacturing area, and it is also true in the biomedical field. I believe the president of the Biomedical Research Zone, a $230 million project in Memphis put it best.

> Changes are needed in the regulations that prevent U.S. firms from selling products in countries where they have been approved for sale simply because these products have not yet been approved by U.S. authorities.
>
> Such regulations handicap U.S. firms in international competition and eventually lead to the migration of manufacturing facilities and jobs overseas.

We need a long term commitment by Government to exporting. A quick fix will not do. Countries such as Japan have been working diligently for 30 years to achieve their present export dominance. I personally feel it is a crime that a nation of our size and expertise in manufacturing has been outsold by Japan and other small nations.

With the right government help the entrepreneurial spirit which made our Nation great can rectify this situation. With the devalued dollar and aggressive action to open these international markets to U.S. firms, we can now compete on a more level playing field. Now, give us some meaningful assistance and our small business community will hit you a home run.

Again, thanks for giving me a chance to give you a few views of my self and other Midsouth businessmen.

[The prepared statement of Mr. Shockey follows:]

STATEMENT OF MR. SHOCKEY

I AM HONORED TO BE HERE TODAY AS A REPRESENTATIVE OF SMALL BUSINESS TO GIVE YOU MY VIEW AS TO HOW THE SMALL BUSINESSMAN CAN BE HELPED IN THE INTERNATIONAL MARKETPLACE. AS A SMALL BUSINESSMAN IN THE MIDSOUTH, I CONTACTED NUMEROUS SMALL COMPANY REPRESENTATIVES IN OUR AREA ASKING THEIR VIEWS ON CURRENT GOVERNMENT EXPORT PROGRAMS AND I AM HAPPY TO SHARE SOME OF THOSE VIEWS WITH YOU TODAY.

DURING MY INQUIRIES, I FOUND VERY FEW SMALL FIRMS HAVING ANY KNOWLEDGE OF THE GOVERNMENT EXPORT ASSISTANCE AVAILABLE TO THEM AND OF THOSE WHO WERE AWARE, THEIR KNOWLEDGE WAS GENERALLY LIMITED REGARDING GOVERNMENT ASSISTANCE AND HOW TO OBTAIN IT.

FEDERAL, STATE AND LOCAL EXPORT-ASSISTANCE AGENCIES MUST COORDINATE ACTIVITIES AIMED AT HELPING SMALL BUSINESSES BUILD INTERNATIONAL MARKETS. I BELIEVE THAT IS IT ESSENTIAL TO EDUCATE THE SMALL BUSINESS EXPORTER AS TO WHAT GOVERNMENTAL HELP IS CURRENTLY AVAILABLE TO HIM AND HOW TO USE IT.

PRESENTLY WE HAVE 7 GOVERNMENT AGENCIES PROVIDING EXPORT ASSISTANCE AND THE SMALL BUSINESSMAN IS KIND OF LIKE THE SMALL KID IN A CANDY STORE: HE DOESN'T KNOW WHERE TO BEGIN AND BY THE TIME HE HAS CONTACTED ALL 7 OF THEM, HE FOR SURE HAS A BELLY ACHE.

FROM MY OWN EXPERIENCE, WHEN I STARTED INTO EXPORTING PESTICIDES, I WASN'T AWARE OF THE GOVERNMENT ASSISTANCE AVAILABLE TO ME AND HAD IT NOT BEEN FOR HAVING FRIENDS IN FOREIGN COUNTRIES WHO ENCOURAGED AND ASSISTED ME, I WOULD HAVE HAD NEITHER THE TIME OR MONEY TO BECOME AN EXPORTER UNTIL MUCH LATER IN MY COMPANY'S GROWTH. IT WAS ALMOST IMPOSSIBLE TO GET FINANCIAL ASSISTANCE THROUGH LOCAL BANKS. YOU'VE HEARD THE OLD SAYING, "A BANKER IS SOMEONE WHO LOANS YOU AN UMBRELLA WHEN THE SUN IS SHINING AND TAKES IT BACK WHEN IT RAINS." WELL, THEY WOULDN'T EVEN LOAN ME AN UMBRELLA WHEN THE SUN WAS SHINING AND I AM SURE MOST SMALL BUSINESSES HAVE THE SAME PROBLEM. THEREFOR, I FEEL THE SMALL BUSINESSMAN NEEDS MORE HANDS-ON ASSISTANCE IN EXPORTING BOTH THROUGH EDUCATION AND FUNDING.

IT SEEMS THAT MANY GOOD PROGRAMS TARGETED FOR SMALL BUSINESS ARE DROPPED DUE TO LACK OF GOVERNMENT FUNDING. A PRIME EXAMPLE OF THIS WAS THE 1986 MINORITY EXPORT TRADING COMPANY PROGRAM UNDER THE U.S. DEPARTMENT OF COMMERCE WHICH WOULD HAVE GIVEN SMALL BUSINESSES THE HANDS-ON ASSISTANCE THEY NEED.

IMPROVEMENTS HAVE BEEN MADE IN SOME EXPORT PROGRAMS SUCH AS THE FOREIGN CREDIT INSURANCE ASSOCIATION'S EXPORT INSURANCE POLICY WHERE EXPORT SALES ARE GUARANTEED FOR POLITICAL AND COMMERCIAL RISKS. HOWEVER, WITHOUT EDUCATING THE SMALL BUSINESSMAN TO THESE IMPROVEMENTS, THEIR SUCCESS WILL BE LIMITED.

AFTER BEING EDUCATED AS TO THE GOVERNMENT PROGRAMS AND FUNDING AVAILABLE, THE AMERICAN SMALL BUSINESSMAN STILL FINDS IT VERY

HARD TO COMPETE INTERNATIONALLY DUE TO HIS HIGH MANUFACTURING COSTS, THE COSTS OF LIABILITY INSURANCE AND GOVERNMENT RED TAPE. TO QUOTE ONE OF MY FELLOW MID SOUTHERNERS, MR. ALLEN GOOD, VICE PRESIDENT OF FIRST TENNESSEE BANK, "IT HAS BEEN OUR EXPERIENCE, IN THE PAST, THAT ENTIRELY TOO MUCH PAPERWORK AND/OR RED TAPE HAS BEEN INVOLVED IN THE EXPORT ASSISTANCE PROGRAMS OF OUR GOVERNMENT. WHILE WE REALIZE THAT THE TAXPAYERS ARE NOT IN FAVOR OF GIVING THE AGENCIES CARTE BLANCHE TO DOLE OUT PAYMENTS OR INCENTIVES THAT ARE UNSUBSTANTIATED, IT SOMEHOW SHOULD BE MADE EASIER FOR A SMALL BUSINESSMAN TO GET ASSISTANCE."

FURTHER, MANY FIRMS FEEL THAT U.S. GOVERNMENT REGULATIONS ARE A DETERRENT TO EXPORTING. I CAN PERSONALLY ATTEST TO THIS IN THE PESTICIDE MANUFACTURING AREA AND IT IS ALSO TRUE IN THE BIOMEDICAL FIELD. I BELIEVE THE PRESIDENT OF THE BIOMEDICAL RESEARCH ZONE, A $230 MILLION DOLLAR PROJECT, IN MEMPHIS, TENNESSEE, PUT IT BEST -

> "CHANGES ARE NEEDED IN THE REGULATIONS THAT PREVENT U.S. FIRMS FROM SELLING PRODUCT IN COUNTRIES WHERE THEY HAVE BEEN APPROVED FOR SALE SIMPLY BECAUSE THESE PRODUCTS HAVE NOT YET BEEN APPROVED BY U.S. AUTHORITIES. SUCH REGULATIONS HANDICAP U.S. FIRMS IN INTERNATIONAL COMPETITION AND EVENTUALLY LEAD TO A MIGRATION OF MANUFACTURING FACILITIES AND JOBS OVERSEAS.

WE NEED A LONG TERM COMMITMENT BY OUR GOVERNMENT TO EXPORTING. A QUICK FIX WON'T DO. COUNTRIES SUCH AS JAPAN HAVE BEEN WORKING DILIGENTLY FOR THIRTY YEARS TO ACHIEVE THEIR PRESENT EXPORT DOMINANCE.

I PERSONALLY FEEL IT IS A CRIME THAT A NATION OF OUR SIZE AND EXPERTISE IN MANUFACTURING HAS BEEN OUTSOLD BY JAPAN AND OTHER SMALL NATIONS. WITH THE RIGHT GOVERNMENT HELP, THE ENTREPRENEURIAL SPIRIT WHICH MADE OUR NATION GREAT, CAN RECTIFY THIS SITUATION.

WITH THE DEVALUED DOLLAR AND OUR AGGRESSIVE ACTION TO OPEN INTERNATIONAL MARKETS TO U.S. FIRMS, WE CAN NOW COMPETE ON A MORE LEVEL PLAYING FIELD. NOW GIVE US SOME MEANINGFUL ASSISTANCE AND OUR SMALL BUSINESS COMMUNITY WILL HIT YOU A HOME RUN.

AGAIN, THANK YOU FOR GIVING ME THE CHANCE TO GIVE YOU A FEW OF THE VIEWS OF MYSELF AND OTHER SMALL BUSINESSMEN.

ROBERT D. SHOCKEY
CHAIRMAN OF THE BOARD
CHAPMAN CHEMICAL COMPANY

(Additional material retained in Committee files.)

Senator **Sasser**. Thanks very much. We will have some questions for you in a moment. We will turn now to Mr. Watson.

STATEMENT OF THOMAS S. WATSON, JR., CHAIRMAN AND MANAGING PARTNER, WATSON, RICE & CO., WASHINGTON, DC

Mr. **Watson**. Thank you. It is indeed my pleasure to be here, and it is a little extra pleasure to be sitting next to the most important man in the room today.

Senator **Sasser**. That is my view on it, Mr. Watson.

Mr. **Watson**. I am not sure I agree with it very much. I have family roots in Tennessee also.

Mr. Chairman, I am here to present what I hope will be an effective collection of viewpoints from a variety of sources. I have recently served as commissioner for international trade for the White House Conference on Small Business and spent roughly a year of my time moving around the country and talking with over 20,000 small business owners, trying to get a better sense of the kinds of things that need to happen from the small business perspective.

I also chair the ISAC that was referred to earlier by Secretary Smart, the Industry Sector Advisory Committee for small business minority trade policy, which advises the Secretary of Commerce and the U.S. trade representatives.

I serve in a number of other similar small business positions that allow me to see a viewpoint of small business from an international trade and other perspectives, and we have several specific issues that we think are important to discuss with you and your committee this morning.

It is fairly clear I think, from the comments that have been made already this morning that we all recognize the strength of small business in the United States' economy. And that we recognize that roughly 40 percent of the U.S. GNP is produced by small business. However when we look to exports, we find that roughly 85 percent of the exports out of the United States are done by large business, which leaves about 15 percent of that export total for small business. If we do some extrapolations with numbers, we find that there is at least a 25 percent increase that is available in the export activity if we were to find some ways to encourage, and not just encourage but also assist small businesses in export.

I have heard, and I want to stray a little bit from prepared remarks, I have heard a lot of discussion this morning that implies that small business owners either do not know how to export, they do not recognize the market opportunities, or there is some other reason like that that has kept us from exporting.

Well, in fact, I believe that the primary problems are that the kinds of programs that Secretary Smart and Administrator Abdnor talked about this morning are on paper, but are not accessible. And they will not be accessible until we change the direction of the administration of the Federal Government administration from one of competition for recognition and turn that competition to competition for delivering good quality services to the small business community.

We had some discussions this morning about the U.S. trade representative and why it was not represented here this morning. Part of the comment was that they have a staff of roughly 150 people and it is kind of difficult to pay attention to the things that they need to pay attention to and also be here. Where I have a staff of less than 150 people, and have spent the last several days trying to develop some meaningful testimony while running a small business at the same time. I am sure Mr. Shockey has done the same thing.

We need to turn the focus I think a little bit. There are no people that I can identify, and we have through the ISAC worked fairly closely with the U.S. trade office for several years, there are no people that I can identify who have some actual hands on small business management experience that are on the staff of the USTR.

It is very difficult for the USTR to represent all of the United States' economy in negotiations with GAT or bilateral negotiations with Japan or Canada or anyplace else without any sense from firsthand practical knowledge of how the small business community operates. There must be an easy administrative way to rectify that problem. I would hope that Senate encourages that there be some rectification there.

Senator, you also talked some about a need for a central source of information and a kind of ombudsman for small business. That clearly came out of the White House Conference on Small Business, in addition to many other places. It reinforces your view I think, that clearly ought to be a priority in this trade bill.

The question of whether it should be at SBA or at ITA, or someplace else in the sky is a confusing kind of issue. SBA has a focus primarily on domestic programs. They have a very small loan guarantee program that provides financing for transactions in export. And it can go up to $500,000 on a transaction, if they join with Exim they can go up to $1 million. There are other loans in the SBA portfolio that are made to small business that export. But there is not really a focus in SBA on export.

Then you have the International Trade Administration, which clearly has a sharp focus on what is happening outside of the borders of the United States. The charge for ITA as I understand it is and should be to provide assistance to U.S. businesses that are trying to do international trade, either export or import. But there is clearly no focus whatsoever in ITA on small business. In fact there is a small business liaison, a person who has that responsibility in the Department of Commerce in ITA. If you look in the Department of Commerce directory to try to find that individual, they are not even listed as a small business liaison.

It is kind of difficult to find the help that we are supposed to have if there is not even an identification in a directory of who to call and how to deal with it.

So I am reluctant to support either what Secretary Smart said that it ought to be over there, or what Administrator Abdnor said, that it ought to be at SBA. But clearly there ought to be a more sharply defined role of an individual and a group of people that are providing export information, ombudsman assistance for small businesses that either are now exporting or would like to export. I have some examples of some of the kinds of problems that have come up that we might get to in questions and answers.

There is another issue, and that is the use of the dollars that we have budgeted in the United States' budget. For me there are two issues there. The one issue is that it would be real nice to be able to earmark some of the dollars already in the budget to provide a funded program for export assistance that would be a competitive award among small businesses who are looking to develop new marketing opportunities, new exporting opportunities for small business companies. I understand you will hear some more about that tomorrow from Gordon Johnson who is one of the people on the agenda tomorrow. That also was a White House Conference recommendation.

The other is an issue that needs to be developed a little bit today. That is that we have the Agency for International Development, we have the Department of Agriculture, and we have other federal departments and agencies that are spending money for the benefit or for some effect overseas. In many cases, what is being done, AID is a good example, in many cases what is being done is to develop nations overseas so that they have economies that stand on their own and can participate in the world economic development.

There is a mindset in the Federal Government that if we want to do something that is helpful in one of these developing nations, we must go to the biggest, the largest companies in the United States to contract with them to provide those services. When in fact, many of the services or goods or production provided by these large companies are well beyond the capacity of the developing nation, the people on the other end, they cannot absorb, they cannot use effectively what is being put on the table.

If we would encourage AID and others to develop measurement criteria, evaluation criteria in awarding competitive contracts that would encourage them to involve small and specifically small minority owned businesses, and by that I mean ethnic minorities, who have some affinity with people in developing nations, I think we will find that there will be a much greater impact in terms of the dollars that we spend and the development that actually occurs in the nations that we are purporting to help.

So that is something I would also like to develop in questions should the opportunity arise.

Another point is one that gives me a great deal of excitement. We just heard from the Overseas Private Investment Corporation. That is, in my opinion one of the more effective agencies in helping small minority business, any other kind of business in doing business overseas. It would be nice to expand their mandate, so that in addition to them providing insurance, political risk insurance and providing loans and loan guarantees, it would be nice if they could also take equity positions in small business deals that they are providing financing for.

There was some discussion by you Mr. Chairman earlier about the Japanese and the way they encourage exports, and I think that is an excellent example, but we need not just look to Asia. There are European countries, particularly Great Britain that has an operation very similar to what I am suggesting we consider for the Overseas Private Investment Corporation, where there are equity investments. There is a sharing of the risk up front, and a sharing of the profit should there be a profit in the development of the venture.

It provides another point of direction, influence, support and assistance to small business that I think could be helpful in the United States.

I would like to end my comments there and I think Mr. Shockey and I would be pleased to answer some questions.

[The prepared statement of Mr. Watson follows:]

TESTIMONY OF
THOMAS S. WATSON JR. CPA
CHAIRMAN AND MANAGING PARTNER OF WATSON, RICE & CO.
BEFORE THE
COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE THIS COMMITTEE AND TALK ABOUT EXISTING FEDERAL PROGRAMS DESIGNED TO ENHANCE SMALL BUSINESS EXPORTS. MY COMMENTS RESULT FROM THE SYNTHESIS OF INFORMATION, COMMENTS, IDEAS AND STRATEGIES FROM A BROAD RANGE OF SMALL BUSINESS OWNERS, AND KEY FEDERAL PERSONNEL CHARGED WITH SERVICING THE INTERNATIONAL TRADE AND SMALL BUSINESS NEEDS OF OUR COUNTRY.

MY SERVICE IN A LEADERSHIP CAPACITY ON THE WHITE HOUSE CONFERENCE FOR SMALL BUSINESS, THE INDUSTRY SECTOR COMMITTEE FOR SECRETARY OF COMMERCE AND U.S. TRADE REPRESENTATIVE; SMALL BUSINESS ADVISORY COUNCIL OF THE REPUBLICAN NATIONAL COMMITTEE HAVE AFFORDED ME THE OPPORTUNITY TO SURVEY AND AT TIMES ADVOCATE THE VIEWS OF THOUSANDS OF SMALL BUSINESS OWNERS ACROSS THE COUNTRY. THE WHITE HOUSE COUNCIL ALONE REPRESENTS NEARLY 20,000 THOUSAND SMALL BUSINESS OWNERS IN AMERICA.

TODAY, I SPEAK TO YOU AS A SMALL BUSINESS OWNER WHO HAS HAD THE GOOD FORTUNE TO BE IN CONTACT WITH BOTH THE FEDERAL SECTOR AND OTHER BUSINESS OWNERS. I DO NOT PROFESS TO SPEAK FOR ANY OF THE ORGANIZATIONS WHICH I SERVE, BUT I HAVE BORROWED FREELY FROM THE INFORMATION NETWORK THAT SUCH SERVICE HAS AFFORDED ME.

I ENCOURAGE YOU TO ASK QUESTIONS AS YOU DEEM APPROPRIATE.

MY MAJOR CONCERNS ARE FROM THE PERSPECTIVE OF A SMALL BUSINESS OWNER WHO UNDERSTANDS THAT GREATER PARTICIPATION IN INTERNATIONAL TRADE CAN STRENGTHEN OUR ECONOMY, IT CAN ALSO MAKE GOOD BUSINESS SENSE. RIGHT NOW SUCH PARTICIPATION DOES NOT ALWAYS MAKE THE BEST BUSINESS SENSE TO THE OWNER OF A SMALL BUSINESS. WE ARE RISK TAKERS, BUT TO BE SUCCESSFUL WE MUST TAKE RISK THAT ARE FINELY CALCULATED TO RENDER POSITIVE RESULTS. SMALL BUSINESS PEOPLE ARE RISK TAKERS. THIS IS PARTICULARLY TRUE FOR WOMEN AND MINORITY ENTREPRENEURS. BOTH MINORITIES AND WOMEN HAVE BEEN HISTORICALLY EXCLUDED FROM THE INFORMAL COMMUNICATIONS NETWORKS THAT GENERATE INFORMATION CONCERNING BUSINESS OPPORTUNITIES AND MARKETS. THIS IS PARTICULARLY TRUE IN THE INTERNATIONAL TRADE ARENA. THE CHANCE TO TRAVEL AND MAKE FRIENDS ABROAD REQUIRES THE KIND OF CAPITAL THAT MOST SMALL OR NEW BUSINESSES SIMPLY DON`T HAVE.

NEVERTHELESS, SMALL BUSINESS PEOPLE ARE CREATIVE IN IDENTIFYING NEW WAYS TO MAKE A PROFIT WHEN THE OPPORTUNITY OCCURS. THE CAPITAL BASES OF MOST SMALL BUSINESSES TEND TO BE INDIVIDUAL, OR FAMILY OR A VERY LIMITED GROUP OF PRIVATE INVESTORS. THEIR BUSINESS LOANS ARE INVARIABLY MADE AGAINST OWNER/MANAGER PERSONAL GUARANTEES. INVESTORS ALSO TEND TO BE DIRECT PARTICIPATING MEMBERS OF MANAGEMENT. IN THE CASE OF MY OWN COMPANY EACH OF THE SEVEN INVESTORS OR PARTNERS ALSO HAS A DIRECT MANAGEMENT RESPONSIBILITY TO THE FIRM. WRITERS AND RESEARCHERS IN THE SMALL BUSINESS FIELD SEEM TO THINK THAT THIS OWNER PARTICIPATION APPROACH RESULTS IN WELL RUN AND WELL MANAGED OPERATIONS. SINCE IMPROVING AMERICAN MANAGEMENT IS ONE OF THE INTEGRAL PARTS OF THE U.S. COMPETITIVENESS CHALLENGE, THE MANAGEMENT ASPECT OF SMALL BUSINESSES CAN PROVIDE A NEW MANAGEMENT ROLE MODEL FOR AMERICAN INDUSTRY.

SMALL BUSINESSES OWNERS ARE PROBABLY AMERICA`S GREATEST ADVOCATES OF THE FREE MARKET SYSTEM, YET WE REALIZE THAT THE GLOBAL ECONOMY IS NOT ALWAYS DRIVEN BY THE FREE MARKET APPROACH. WE UNDERSTAND THAT THE MARKET PLACE AND ARE ABLE TO RAPIDLY IDENTIFY THE BIG WINNERS. WE HAVE THE ADVANTAGE OF BEING ABLE TO MOVE QUICKLY AND EFFICIENTLY ONE TO DISCOVER A PRODUCT AND MARKET IT. SMALL BUSINESSES ARE TRADITIONALLY LABOR INTENSIVE, THUS WE OFFER THE FASTEST FORM OF JOB CREATION, ANOTHER POSITIVE BENEFIT TO STRENGTHENING OUR ECONOMY.

OUR DIVERSITY MAKES US LESS VULNERABLE TO TARGETING BY FOREIGN COMPETITORS. IN ADDITION THE CULTURAL DIVERSITY, PARTICULARLY AMONG MINORITY BUSINESS OWNERS CAN PROVIDE IMPORTANT LINKS TO NEW MARKETS IN DEVELOPING COUNTRIES. I'LL TALK MORE ABOUT WAYS THAT WE CAN MAXIMIZE ON THE CULTURAL DIVERSITY OF MINORITY OWNED BUSINESSES LATTER. BUT RIGHT NOW LET ME JUST SAY THAT WITH THE APPROPRIATE EXPORT SUPPORT THOUSANDS OF AMERICAN SMALL BUSINESSES CAN BUILD AN INTERNATIONAL MARKET PLACE FOR AMERICAN INDUSTRY THAT WOULD STABILIZE OUR EXPORT STRENGTH FOR DECADES TO COME.

MY RESEARCH INDICATES THAT THE SMALL BUSINESS SHARE OF THE UNITES STATES GNP IS ABOUT 1.3 TRILLION DOLLARS OR 40% OF OUR TOTAL. IF SMALL BUSINESSES WERE CONSIDERED A NATION WE WOULD RANK AMONG THE TOP FOUR NATIONS ON EARTH ON PAR WITH JAPAN. YET SMALL BUSINESS EXPORTS ARE LESS THAN 15% OF THE TOTAL U.S. EXPORTS. THE TOP 250 EXPORTERS ACCOUNT FOR 85% OF THE TOTAL U.S. EXPORTS. THESE FIGURES MAKE IT CLEAR THAT SMALL BUSINESS SECTOR IS AN UNTAPPED FOUNTAIN, NEEDED TO NOURISH OUR TRADE BALANCE AND ECONOMY.

MANY PEOPLE MORE ABLE AND LEANED THAN MY SELF HAVE RESEARCHED THIS TOPIC, THROUGH THE REAL LIFE EXPERIENCES OF TRIAL AND ERROR.

AND SOMETIMES TRIAL AND SUCCESS. THERE SEEMS TO BE GENERAL AGREEMENT THAT THERE IS A NEED FOR INCREASED COORDINATION OF FEDERAL INTERNATIONAL TRADE PROGRAMS AND GREATER COMMUNICATIONS CONCERNING FOREIGN MARKET OPPORTUNITIES FOR SMALL BUSINESSES. THIS SHOULD RESULT IN BETTER ACCESS TO NEW MARKETS AND SUFFICIENT START UP CAPITAL TO SERVICE THEM. PUT ANOTHER WAY WE NEED TO KNOW WHO ELSE ON THE PLANET CAN USE OUR PRODUCTS OR WHAT WE CAN CREATE FOR THEM. THEN WE NEED TO CUT THE BUREAUCRATIC RED TAPE SO THAT WE CAN GET THE PRODUCT TO THE MARKET. WE NEED INFORMATION CONCERNING THE BEST AND MOST COST EFFECTIVE WAYS TO GET OUR PRODUCTS AND SERVICES FROM POINT A TO POINT B. WE LOOK TO THE FEDERAL GOVERNMENT TO FOCUS THE NECESSARY ADMINISTRATIVE AND REGULATORY EFFORTS IN A WAY THAT SUPPORTS OUR EFFORTS.

FOR EXAMPLE, WE NEED CONGRESS TO ENACT LEGISLATION THAT WILL CENTRALIZE THE COORDINATION OF INTERNATIONAL TRADE; MANDATE PROCEDURES THAT WILL PROVIDE FINANCIAL INCENTIVES FOR INCREASED PARTICIPATION IN THE EXPORT OF GOODS AND SERVICES, AND INCREASE SMALL BUSINESS PARTICIPATION AT THE POLICY MAKING DECISION LEVEL ON MATTERS PERTAINING TO INTERNATIONAL TRADE.

CENTRALIZE INTERNATIONAL TRADE COORDINATION

THE INTERNATIONAL TRADE SERVICES FOR SMALL BUSINESS IN AMERICA IS SCATTERED AMONG AT LEAST SEVEN DIFFERENT AGENCIES, WITH ULTIMATE ACCOUNTABILITY TO AT LEAST FOUR DIFFERENT CABINET LEVEL PERSONS. MOREOVER THE ADMINISTRATION OF THE SMALL BUSINESS COMPONENT OF MOST INTERNATIONAL TRADE PROGRAMS IS SO LOW IN PRIORITY THAT THE SMALL BUSINESS PERSON DOESN'T THEY EXIST, AND IF THEY KNOW OF THE EXISTENCE THEY CAN'T FIND THEM. THIS IS EXACERBATED BY THE TRADITIONAL SMALL BUSINESS PERSONS TENDENCY TO AVOID GOVERNMENT

WHEN EVER POSSIBLE, BECAUSE ALL OF THE COMMERCIAL SERVICES HAVE BEEN GEARED TOWARD THE NEEDS OF BIG BUSINESSES.

ALL OF THE INFORMATION CURRENTLY AVAILABLE TO ASSIST SMALL BUSINESS PERSONS NEEDS TO BE CONSOLIDATED BY ONE AGENCY. SUCH A CONSOLIDATION WOULD REQUIRE COOPERATION BETWEEN THE DEPARTMENTS OD AGRICULTURE, COMMERCE, LABOR, STATE, AND QUASI-GOVERNMENTAL AGENCIES LIKE THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC), THE EXPORT IMPORT BANK (EXIM) THE AGENCY FOR INTERNATIONAL DEVELOPMENT AND OTHERS. IN A PERFECT WORLD WE WOULD NOT NEED A LEGISLATIVE MANDATE FOR SUCH COORDINATION, BUT BUREAUCRATIC TURF BUILDING AND INFIGHTING IS A REALITY OF OUR GOVERNMENT. THE ONLY LOSERS WOULD BE SMALL BUSINESSES WANTED TO INCREASE THEIR PARTICIPATION IN INTERNATIONAL TRADE. THUS CONGRESS NEED TO MANDATE THE CENTRALIZING OF ALL INFORMATION CONCERNING PROGRAMS TO ASSIST SMALL BUSINESSES IN INTERNATIONAL TRADE.

I SUGGEST THAT THE DEPARTMENT EMPOWERED BY THE U.S. CONSTITUTION TO BE RESPONSIBLE FOR TRADE, COORDINATE AND OVERSEE SUCH AN EFFORT. THE DEPARTMENT OF COMMERCE SHOULD BE PROVIDED WITH THE NECESSARY FUNDING TO LAUNCH SUCH AN EFFORT. THE ESTABLISHMENT OF AN ASSISTANT U.S. TRADE REPRESENTATIVE FOR SMALL BUSINESS WOULD HELP CURTAIL CRITICISMS THAT DOC`S MAIN PRIORITY IS BIG BUSINESSES. ONE OF THE FIRST MANDATES OF THE TRADE REPRESENTATIVE FOR SMALL BUSINESS WOULD BE TO PROVIDE COMPREHENSIVE INTERNATIONAL TRADE INFORMATION AND ASSISTANCE TO SMALL BUSINESSES. THE INTERNATIONAL TRADE DIVISION OF THE DEPARTMENT OF COMMERCE NEEDS TO BE FUNDED AT SUFFICIENT LEVELS TO ENABLE THE OFFICE TO FUNCTION AFFECTIVELY.

THIS OFFICE SHOULD BE FUNDED AT A SUFFICIENT LEVEL TO PROVIDE THE MUCH NEEDED DISTRIBUTION NETWORK FOR EXISTING PROGRAMS IN THE AREAS OF PROMOTION, TRADE REMEDIES, TRADE FINANCE, TRADE ADJUSTMENT AND TRADE DATA COLLECTION. THIS OFFICE WOULD BE RESPONSIBLE FOR THE COORDINATION OF THE INSTALLATION OF COMPUTERIZED DISSEMINATION OF MARKETING DATA PERTAINING TO SMALL BUSINESSES AND ASSISTING WHERE APPROPRIATE IN THE FORMATION OF EXPORT TRADING AND EXPORT MANAGEMENT COMPANIES. MANY OF THESE FUNCTIONS ALREADY EXIST AT THE DEPARTMENT OF COMMERCE THUS THE ONLY CHANGE WOULD BE THE LEVEL OF ACCOUNTABILITY FOR SMALL BUSINESS SERVICES.

FINANCIAL INCENTIVES FOR INCREASED PARTICIPATION

IN ORDER TO IMPROVE OUR COMPETITIVE ADVANTAGE OVERSEAS, WE MUST MAXIMIZE THE POSITIVE USE OF ALL OF OUR RESOURCES. ONE OF AMERICAS MOST VALUABLE RESOURCES THAT HAS BEEN UNTAPPED IN REGAINING OUR COMPETITIVE EDGE IS OUR CULTURAL DIVERSITY. WE MUST FOREVER PUT TO REST THE KIND OF THINKING THAT LOOKS AT CULTURAL DIVERSITY AS A SHORTCOMING. IT IS THAT VERY DIVERSITY THAT CAN PROVIDE US WITH THE KIND OF LINKS TO AN ARRAY OF MARKETS THAT NO OTHER COUNTRY ON THE PLANET CAN LAY CLAIM TO. AMERICA NOW HAS A WONDERFUL OPPORTUNITY. MINORITY BUSINESS OWNERS PROVIDE AMERICA WITH THE OPPORTUNITY HONORABLY CHANGE THE TENOR AND THE TONE OF OUR APPROACH TO COMPETITIVE EXPORTING. THIS IS AN IDEAL TIME TO STRENGTHEN LEGISLATION THAT ENCOURAGES MINORITY PARTICIPATION.

PROVIDING A CAPITAL INCENTIVE FOR JOINT VENTURING WITH MINORITY FIRMS IS ONE WAY TO MAXIMIZE ON BENEFIT FROM OUR COUNTRY'S CULTURAL DIVERSITY. MAJORITY OWNED FIRMS SHOULD BE AWARDED POINTS IN THE BIDDING PROCESS FOR FEDERAL CONTRACTS, IF THEY JOINT

VENTURE WITH A QUALIFIED MINORITY OWNED FIRM. SUCH FIRMS WOULD NEED TO BE 85 TO 100% MINORITY OWNED TO QUALIFY, THUS AVOIDING THE POTENTIAL FOR FRONT ORGANIZATIONS. AID SHOULD BE MANDATED TO INSTITUTE SUCH A PROCEDURE IMMEDIATELY. THE PROCESS AT THE AGENT IS A CASE IN POINT WHERE THE BUREAUCRATIC PROCESSES MAKE VERY DIFFICULT FOR A SMALL BUSINESS TO COMPETE FOR A CONTRACT THAT THEY MAY WELL HAVE TO CAPABILITY OF FULFILLING. IN FACT THEY MAY BE THE BEST PROVIDER OF THE REQUIRED SERVICES. HOWEVER, COSTLY PROPOSAL WRITING PROCESS MAKE IT ADMINISTRATIVELY UNSOUND FOR MOST SMALL AND MINORITY BUSINESSES TO COMPETE FOR AID BUSINESS. ANY FEDERAL AGENCY ISSUING A CONTRACT IN THE INTERNATIONAL ARENA SHOULD INSTITUTE THE SAME OR A SIMILAR PROCESS.

ANOTHER FINANCIAL INCENTIVE IS TO IMPROVE THE FOREIGN SALES CORPORATION LEGISLATION TO INCREASE THE FORMATION AND USE OF SMALL FSCS. LEGISLATION SIMPLIFYING THE TAX CALCULATION AND INCREASE THE INCOME TAX BENEFIT FOR SMALL FSCS. SUCH A MEASURE WOULD:

1. ELIMINATE THE NEED TO SET UP AND MAINTAIN A SEPARATE ACCOUNTING SYSTEM TO DETERMINE EXPORT PROFITS.

2. INCREASE THE INCOME TAX BENEFIT, FOR A MANUFACTURER OR PRODUCER WHO HAS A SMALL FSC WHICH IS A NON-MANUFACTURER OR NON PRODUCER.

I BELIEVE THAT TAX BENEFITS DO INCREASE EXPORT EFFORTS AND THAT INCREASED EXPORTS MEAN INCREASED PRODUCTION, MORE JOBS, AND MORE CONSUMPTION, THUS INCREASING THE OVERALL TAXABLE INCOME. CURRENTLY THE COST TO ESTABLISH A FSC HAS DISCOURAGED SMALL EXPORTERS. A SHARED FSC WOULD SAVE ON THE ADMINISTRATIVE COST OF THE ORGANIZATION AND OPERATION OF A FSC.

ANOTHER FINANCIAL INCENTIVE WOULD BE TO EXPAND LOAN PROGRAMS FOR U.S. SERVICE INDUSTRIES AND SMALL BUSINESS CONTRACTORS BY:

1. MAKING DIRECT LOANS TO SMALL CONTRACTORS IN CONJUNCTION WITH A CONTRACTOR GUARANTY PROGRAM. THIS WOULD PROVIDE SMALL BUSINESSES WITH WORKING CAPITAL FOR FEASIBILITY STUDIES AND EVENMARKETING.

2. OFFERING 100% GUARANTEE OF BID PERFORMANCE AND ADVANCE BONDS. MANY SMALL BUSINESSES ARE UNABLE TO POST-BONDS WITHOUT A 100% GUARANTEE. SOME ORGANIZATIONS SUCH AS OPIC ONLY GUARANTEES 75% THESE BONDS WOULD MAKE IT POSSIBLE FOR MORE SMALL AND MINORITY OWNED FIRMS TO COMPETE BUSINESS ABROAD.

3. PROVIDE DIRECT FINANCING TO SMALL LOCALLY-OWNED DISTRIBUTORS OF U.S. EQUIPMENT WITHOUT REQUIRING AN EQUITY INVESTMENT BY OR GUARANTY OF A U.S. SUPPLIER.

INVESTMENT INCENTIVES COULD GO A LONG WAY IN ENCOURAGING INTERNATIONAL TRADE DEVELOPMENT FOR SMALL BUSINESSES.

1. COMPETITIVE GRANTS FOR LOAN ASSISTANCE MUCH LIKE THE ONES UNDER THE CURRENT SBIR PROGRAM. SUCH A PROGRAM COULD BE USED BY TO STRENGTHEN A PARTICULAR MARKET DEVELOPMENT.

2. ENABLE QUASI-BUSINESS ORGANIZATIONS LIKE OPIC TO TAKE AN EQUITY INVESTMENT IN THE PROJECTS IT FINANCES. SUCH AN ORGANIZATION WOULD BE REQUIRED TO ESTABLISH A TRUST

FUND FROM ITS RESERVES TO FUND EQUITY INVESTMENTS. THE FUND WILL BE RESTRICTED FOR THE USE OF PROJECTS SPONSORED BY SMALL BUSINESSES CONCERNING IN LEAST DEVELOPED COUNTRIES.

TRAINING FOREIGN BUSINESS EXECUTIVES AND ENTREPRENEURS. SINCE SMALL BUSINESSES TEND TO BE RUN MANAGED FOR CAREFULLY THAN BIG BUSINESSES, THIS EXPERTISE CAN BE SHARED WITH OTHER COUNTRIES WHO ARE GOING THE A DEVELOPMENT OR REDEVELOPMENT PROCESS. SHARING OF INFORMATION AND TECHNOLOGY OFTEN CREATES NEW MARKETS. SMALL BUSINESS OWNERS SHOULD BE INTRICATELY INVOLVED IN THE TRAINING AND PREPARING OF TECHNOLOGY TRANSFER PACKAGES FOR THESE EXECUTIVES.

IN SUMMARY I'D LIKE TO THANK YOU AGAIN FOR YOUR TIME AND ATTENTION. AN I`D LIKE TO THANK THE DIVINE CREATOR FOR GIVING US ALL THE TIME AND THE INSPIRATION TO FIND AND APPLY SOLUTIONS TO THE COMPLEX PROBLEMS AFFECTING INCREASED SMALL AND MINORITY BUSINESS INVOLVEMENT IN INTERNATIONAL TRADE. I'D LIKE YOU LEAVE WITH THE THOUGHT THAT SMALL BUSINESS CAN PLAY A WINNING ROLE IN OUR COUNTRY`S COMPETITIVE STRATEGY IN THE GLOBAL MARKET PLACE. SMALL BUSINESSES THROUGH OUR CREATIVITY AND EFFICIENCY CAN CONTRIBUTE SIGNIFICANTLY TO OUR NATIONS PROSPERITY. THE KEY IS OUR DIVERSITY, IT IS THAT SAME DIVERSITY THAT US MAKES US LEADERS AND INNOVATORS.

THOMAS S. WATSON, JR., MBA, CPA

POSITION	Chief Executive, Managing Partner Thomas S. Watson, Jr., is the Chief Executive of Watson, Rice & Company, a CPA firm with offices in Cleveland, New York City Washington, D.C. and Virginia.
EDUCATION AND CERTIFICATION	He is graduate of the Harvard University Smaller Company Management Program and the Case Western Reserve University Chief Executive Program. He holds MBA and BBA degrees in accounting from Cleveland State University and is a CPA in Ohio, Indiana, West Virginia, Pennsylvania, Illinois, New York, and the District of Columbia.
RANGE OF EXPERIENCE	Mr. Watson, is founder and Chairman and Managing Partner of Watson, Rice and Company a highly recognized CPA firm. He directs and coordinates the company's programs and activities. His extensive experience in private sector and government related accounting services has resulted in the formation and growth of a well diversified operation.
PROFESSIONAL AND BUSINESS AFFILIATIONS	Mr. Watson is an elected at-large member of the council (governing body) of the American Institute of CPAs. He is former Chairman of the Small Business Development Committee of the American Institute of CPAs; member of the Executive Committee of the AICPA Division of Firms; member of the AICPA Committee on Federally Assisted Programs; member of the AICPA Small Business Executive Committee; and is active in State societies of CPAs in those states where he is licensed. He is presently a member of the Export Policy Task Force of the U.S. Chamber of Commence and the Small Business Advisory Council of the Republican National Committee.

THOMAS S. WATSON, JR., MBA, CPA

PROFESSIONAL BUSINESS AFFILIATIONS (CONT)

Mr. Watson is an appointed member of the Industry Sector Advisory Committee on Small and Minority Business for trade policy matters. The committee advises the U.S. Secretary of Commerce and the U.S. Trade Representative on trade policy. Representing WRC, he has recently traveled to Japan, China, Australia, Venezuela and the Soviet Union.

Mr. Watson has been a National Advisory of the U.S. Small Business Administration, elected delegate to the 1980 White House Conference on Small Business, a member of the Economic Rights Coalition (a national activist group for minority business), a director of the Council of Smaller Enterprises and a director of the National Business League.

He has been President of the Ohio Accountancy Board, and President of the National Association of Minority Business League.

His interest in the profession has taken him throughout the country and abroad. He regularly speaks to college groups, civic organizations, professional associations, and government officials.

AWARDS AND RECOGNITIONS

Recent awards and recognitions include 1982 Small Business Advocate of the Year - U.S. Small Business Administration, District of Columbia and Cleveland District Office and participant in the U.S. Securities and Exchange Commission's (SEC) conference on capital formation for small business.

Senator **Sasser**. Thank you very much. I am going to have a couple of questions, I am going to have to be brief because unfortunately I am running into another commitment that I have here.

Let me say that first I want to thank you both for your very, very excellent testimony. As a matter of fact, a number of the questions that I had intended to ask were covered and answered in the testimony. I might say this to you Bob, as SBA Small Business Exporter of the Year last year, you do provide encouragement to many firms across the country to keep pushing and trying to get into the export field.

I gather that both of you react favorably to the concept of an ombudsman to assist small business in their efforts to get into the system and learn how to export. Is that a fair assessment?

Mr. **Shockey**. Yes, I think that would be very productive.

Senator **Sasser**. What about the view of the question of whether the ombudsman should be Commerce or Small Business Administration or where? Mr. Watson sort of skirted around that, or maybe hit it squarely on the head and I did not quite catch it. But as I judge, you are not so concerned about where it ought to be, there just ought to be one, is that a fair assessment, or do we have a consensus as to where it ought to be, an ombudsman, what agency?

Mr. **Watson**. If I had to choose the lesser of two evils I would put it in the Department of Commerce.

But I would do that with an understanding that there needs to be an effective monitoring from Congress to make sure that it is effective.

Senator **Sasser**. Commerce is not the easiest Department to monitor on occasion, particularly in the field of export import problems.

In the 1986 White House Conference on Small Business, they urged the creation of a new program to generate small business exports, and basically the thrust of this program was to solicit proposals from small firms as to what they thought the Federal Government ought to do to increase small business exports.

This idea was patterned after the successful small business innovation and research program. I would ask both of you, what are your views on this proposal, and do you think we really ought to be giving it serious consideration here, and if so, how should we implement it.

Have you any thoughts on that Mr. Shockey?

Mr. **Shockey**. I have read those, and I do not remember, it has been some time since I have read them, but I remember being in agreement with most of those proposals. I thought there were a number of very good suggestions made, and I think that we should be trying to do something about this.

Senator **Sasser**. The idea of soliciting proposals from small business firms, small business people about how we can make the exporting market more attractive to them, and how we can provide some sort of incentives if necessary to get small business into the export field is very attractive to me. Because it has been my experience here over 10 years, that many times any effort on the part of the Congress or Federal regulators or bureaucrats to try to fashion programs that will be helpful, many times just miss the mark. Although our intentions are good, we have the best of intentions, but we simply do not fashion a program that is effective in doing what we seek to do. That is the attraction to me of trying to solicit proposals from small business people who perhaps have either been in the export business or have sought to get into the export business unsuccessfully for various and sundry reasons.

They are down where the rubber meets the road, and I sense that they could tell us how to really get people in the export business.

Mr. SHOCKEY. Mr. Ryan from Eximbank made a statement describing someone from Tennessee getting into the export market and export logs. I am a little bit involved now in the lumber business, and I was talking with some people the other day and they were telling me the way their exporting is, the Japanese are sending the containers directly to our saw mills and picking up their lumber, having them load it there, and then they give them a letter of credit and they go to the bank and get their money.

That is the participation that most people have in the exporting of the lumber. The Japanese are taking it to Europe or the Netherlands and have control of the markets. And when they want to switch from one country to another, one area to the other, they have the control of the business.

That is the way the majority of our exports from some of these smaller companies are being handled.

Senator SASSER. It is just simply a question of the Japanese coming in and really buying the stuff on the spot, and you are really not engaged in a whole lot of exporting.

Mr. SHOCKEY. And we lose, you see where we really lose is if the market changes, or the dollar changes, the value of the dollar changes, it is more profitable for them to buy from another country, they just switch countries. But they control the markets.

I think the lower value of the dollar is really going to help us. It is not going to be real fast, because there are so many trade patterns already set, there are so many ongoing contracts. It is going to take two or three years to begin to really turn things around. But we are so far down.

Senator SASSER. Once you lose the market, it is very difficult to get it back, sometimes you never get it back.

Mr. SHOCKEY. Right. The Japanese especially would take very low, even loses rather than lose. They realize the importance of these markets and they would lose money rather than lose the market.

Senator SASSER. Gentlemen I am going to have to leave.

I thank both of you for your very excellent testimony. It will be most helpful in our final deliberations. Thank you very much.

Mr. WATSON. I would like to add one other very quick thing. There is, as you know, the Foreign Sales Corporation Act has set up some tax incentives for exporting. There is a provision in that for what we are calling a small fist. The provisions, as they now stand in law are fairly complex and are difficult to administer from a small business perspective. We would suggest that you look at some language to simplify that as a part of this trade bill.

Senator SASSER. We will do so, thank you.

[Whereupon at 11:55 a.m. the hearing was recessed.]

HOW TO INCREASE SMALL BUSINESS PARTICIPATION IN EXPORT MARKETS

THURSDAY, APRIL 30, 1987

U.S. SENATE,
SUBCOMMITTEE ON EXPORT EXPANSION,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2 p.m., in room SR-428A, Russell Senate Office Building, Hon. Tom Harkin (acting Chairman of the Subcommittee) presiding.

STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM THE STATE OF IOWA

Senator HARKIN. The Subcommittee will come to order. The Subcommittee on Export Expansion today is continuing our investigation into the role of small business in U.S. export markets. We are meeting today under somewhat unusual circumstances. The Chairman of the Subcommittee, my colleague from Tennessee, Senator Sasser, has put much time and energy into this issue. Unfortunately, Senator Sasser has to be in Tennessee today on emergency business. A close friend of the Senator's, Tennessee Governor Ned McWherter, suffered a personal tragedy yesterday with the death of his mother. Senator Sasser and much of the Tennessee delegation are close family friends of the McWherters and felt a strong obligation to attend Mrs. McWherter's funeral today.

However, Senator Sasser also felt strongly that we should push ahead with today's hearing and I whole-heartedly agree. We need to move forward expeditiously if we are to offer small business language in the trade debate now taking place in the Senate. The hearing record established today will be central to that effort.

I share Senator Sasser's enthusiasm for making sure that the concerns of the small business are addressed in whatever trade legislation we pursue. Therefore, I was more than willing to accommodate Senator Sasser when he asked me to chair today's hearing.

Our procedures today are further complicated by the demanding schedule facing myself and other members of the Subcommittee. I will have to leave this hearing for mark-ups in my other committees which had been previously scheduled before this. However, the Chairman of our Committee, Senator Bumpers, will be joining us later this afternoon and will take over chairing the hearing for me at a later time.

To guarantee that we are able to hear from all witnesses with the time constraints that we have, we will follow a different procedures for our witnesses. We will forego all oral questions today. We will instead submit written questions for each witness.

I personally regret that we have to adopt this procedure, but with Senator Sasser's necessary absence and the time constraints on other committee members, this appears to be the best way to guarantee that we hear from all of our witnesses.

We have several witnesses who have traveled great distances to be with us. We want to make sure that they have a chance to add to our hearing record. The procedure of foregoing questions at this time will help make sure everyone is heard from.

I would also like to add to those of you that will be testifying, that if you have prepared statements, those will be made a part of the record in their entirety. If you would care to expedite the hearings and summarize, in your own language, for us, your thoughts and your recommendations on how we incorporate language in the trade legislation to enhance the position of small businesses in the export markets, then I would encourage you to do that. Sometimes your off-the-cuff comments and what comes from the heart and what you know of your own background is very valuable. It may be more valuable than what is in the written statement.

Your written statements will be made a part of the record, and if you want to shorten it and just comment, or maybe to highlight it, we would be most appreciative of that.

[The prepared statements of Senators Sasser, Bumpers, and D'Amato follow:]

STATEMENT OF SENATOR JIM SASSER

CHAIRMAN

SUBCOMMITTEE ON EXPORT EXPANSION

SENATE COMMITTEE ON SMALL BUSINESS

APRIL 30, 1987

I DEEPLY REGRET THAT A DEATH IN THE FAMILY OF MY CLOSE FRIEND, THE GOVERNOR OF TENNESSEE, PREVENTS ME FROM CHAIRING TODAY'S HEARING. HOWEVER, I AM VERY PLEASED THAT WE ARE MOVING FORWARD WITH THE TESTIMONY FROM OUR WITNESSES ON THIS VERY IMPORTANT SUBJECT.

YESTERDAY WE BEGAN EXPLORING THE ROLE SMALL BUSINESS PLAYS IN OUR EXPORT MARKETS. OUR FOCUS WAS PRIMARILY ON EXISTING FEDERAL PROGRAMS DESIGNED TO INCREASE SMALL BUSINESS EXPORTS. THE TESTIMONY WE HEARD INDICATED THAT WHILE THERE ARE A HOST OF EXPORT PROMOTION PROGRAMS CURRENTLY OPERATED BY SOME SEVEN FEDERAL AGENCIES, SMALL BUSINESS STILL IS NOT A MAJOR PLAYER IN INTERNATIONAL MARKETS. TRAGICALLY, MANY OF THESE EXPORT PROGRAMS SIMPLY AREN'T WORKING.

FOR EXAMPLE, THE ADMINISTRATOR OF THE SMALL BUSINESS ADMINISTRATION REPORTED THAT EXPORT LOAN ACTIVITY AT THE SBA LAST YEAR AMOUNTED TO LESS THAN ONE PERCENT OF THE AGENCY'S LOAN PORTFOLIO. FURTHER EVIDENCE OF THE PROBLEMS WE ARE ENCOUNTERING IN EXPORT PROMOTION PROGRAMS WAS THE DECISION OF THE OFFICE OF THE TRADE REPRESENTATIVE TO NOT HAVE A WITNESS APPEAR AT YESTERDAY'S HEARING.

I WAS ESPECIALLY TROUBLED BY THE CALLOUS DISREGARD DISPLAYED BY THE TRADE REPRESENTATIVE'S OFFICE. I WELL UNDERSTAND THE DISTINCTION BETWEEN FORMULATING TRADE POLICY AND NEGOTIATING THESE POLICIES. YET, MANY OF US INTERESTED IN SMALL BUSINESS WOULD LIKE TO KNOW MORE ABOUT HOW SMALL BUSINESS IS REPRESENTED

IN OUR NEGOTIATIONS WITH OUR TRADING PARTNERS. IT MAY BE THAT WE WILL HAVE TO PURSUE THIS AREA OF INTEREST THROUGH OTHER CHANNELS.

FORTUNATELY, WE DIDN'T COME AWAY FROM YESTERDAY'S HEARINGS WITH A COMPLETELY BLEAK PICTURE. CERTAINLY, WE SAW WHERE PROBLEMS STILL EXIST. HOWEVER, WE HEARD MANY CONSTRUCTIVE SUGGESTIONS ON HOW TO IMPROVE THE OPERATIONS OF THE VARIOUS FEDERAL EXPORT PROGRAMS DESIGNED TO AID SMALL BUSINESS.

WE WILL TAKE MANY OF THOSE SUGGESTIONS AND BEGIN WORKING TOWARDS LANGUAGE WHICH MAY BE INCORPORATED IN THE TRADE LEGISLATION UNDER CONSIDERATION IN SEVERAL SENATE COMMITTEES.

I ANTICIPATE THE COMMITTEE WILL HEAR MORE CONSTRUCTIVE PROPOSALS IN TODAY'S TESTIMONY. SEVERAL OF OUR WITNESSES ARE ADVOCATING UNIQUE PROPOSALS WHICH COULD SUBSTANTIALLY BOLSTER SMALL BUSINESS EXPORT ACTIVITY IN THIS COUNTRY. I AM LOOKING FORWARD TO REVIEWING THE TESTIMONY WE WILL RECEIVE TODAY. I AM PARTICULARLY INTERESTED IN THE SO-CALLED EXPORT S.B.I.R. PROPOSAL WHICH WILL BE DISCUSSED BY ONE OF OUR WITNESSES.

OTHER WITNESSES AT TODAY'S HEARING WILL DISCUSS NEW DIRECTIONS AND NEW PROPOSALS WE SHOULD CONSIDER IN OUR QUEST IN INCREASE SMALL BUSINESS EXPORTS. WITH THIS TYPE OF EFFORT, I AM INCREASINGLY CONFIDENT THAT WE WILL SEE THE BOOST IN U.S. EXPORTS SO VITAL TO REDUCING OUR TRADE DEFICIT. I HAVE NO DOUBT THAT AS HAS OFTEN BEEN THE CASE IN THE PAST, SMALL BUSINESS WILL LEAD THE WAY TO INCREASED U.S. PARTICIPATION IN WORLD MARKETS.

Statement of Senator Dale Bumpers for the Export Expansion Subcommittee of The Senate Small Business Committee

I am pleased to have the opportunity to chair a portion of this committee hearing due to the unavoidable absence of my colleague, Senator Sasser, the Chairman of the Subcommittee. His absence in no way detracts from the importance of these hearings. The ability of small business to realize its potential in international markets is of the utmost importance. We in the legislative branch as well as those in the executive branch need to do all we can to facilitate this process and remove the barriers which currently keep small business from marketing their products overseas.

The House legislation, H.R. 1854, is a good start in addressing many of the problems facing small business. I think it is fair to say that there are many programs on the books helping the small business man get into exporting, at both the state and federal level. The problem lies largely in, one, getting basic information to the small businessman and, two, coordinating the activities of the relevant federal agencies. The House bill takes steps in the right direction to address both of these problems. Still, there is room for improvement. And that is why we are here today.

The current trade situation is deplorable, yet I am very hesitant to argue for protectionism. There are a number of positive measures that can be taken to more effectively use existing structures and programs. The Committee will be looking into the various proposals and will be putting together legislation to incorporate the many initiatives into a coherent program. I appreciate the cooperation and testimony yesterday from the Administration. Their input is important to the success of helping small business, and we will be utilizing their comments to develop our legislative proposal.

We have before us today a group of individuals who have first-hand experience with small business exporting programs and needs. I welcome the representatives from the Small Business Development Centers and look forward to their comments. They will be interested to know that Senator Chiles has proposed creation of an International Marketing Assistance program modeled after a successful program at the University of Florida SBDC.

The problems involved in the export licensing program will also be addressed today, as well as an innovative proposal to develop an export incentive program--which, I might add, was included in the final recommendations of the White House Conference on Small Business.

As I said before, there are many positive ideas for improving the export potential of small business, which could do much to improve our unbalanced trade posture. I am pleased to welcome all of the witnesses here today to share their experiences and ideas. If there are no other Senators who wish to give opening statements....

STATEMENT BY SENATOR ALFONSE M. D'AMATO
BEFORE THE SENATE COMMITTEE ON SMALL BUSINESS

APRIL 30, 1987

MR. CHAIRMAN, I WANT TO WELCOME TO THE SMALL BUSINESS COMMITTEE THIS AFTERNOON OUR DISTINGUISHED PANEL OF WITNESSES WHO WILL TESTIFY ON THIS SECOND DAY OF HEARINGS ON FEDERAL AND PRIVATE FUNDING FOR SMALL BUSINESS EXPORTS.

YESTERDAY, JIM ABDNOR, THE NEW ADMINISTRATOR OF THE SMALL BUSINESS ADMINISTRATION PROVIDED VALUABLE INSIGHT REGARDING THE BARRIERS FREQUENTLY ENCOUNTERED BY SMALL BUSINESSES ENTERING THE EXPORT MARKET. THE SBA IS ESTABLISHING MORE EXPORT PROMOTION PROGRAMS TO EDUCATE THE SMALL BUSINESS COMMUNITY. THE U.S. DEPARTMENT OF COMMERCE, IN CONCERT WITH THE SBA, OFFERS SUPPLEMENTAL ASSISTANCE TO POTENTIAL EXPORTERS BY PROVIDING MARKET RESEARCH, INSTITUTIONAL DATA, AND OTHER CRITICAL RESOURCES.

THE SPIRALING TRADE DEFICIT, WHICH NOW EXCEEDS $180 BILLION, HAS FORCED AMERICAN BUSINESSMEN TO EXPLORE OPPORTUNITIES BEYOND OUR BORDERS. I DO NOT BELIEVE THAT MAJOR CORPORATIONS ARE THE ONLY SOURCE TO INCREASE U.S. EXPORTS. MANY OPPORTUNITIES AWAIT SMALL BUSINESSES. IT IS OUR RESPONSIBILITY TO INITIATE PROGRAMS TO MATCH THE EXPERTISE OF U.S. FIRMS WITH FOREIGN NEEDS.

I LOOK FORWARD TO HEARING THE TESTIMONY THIS AFTERNOON OF OUR DISTINGUISHED WITNESSES WHO ARE INVOLVED IN EXPORT PROMOTION AND WHO ARE FAMILIAR WITH THE PITFALLS OF STRINGENT EXPORT CONTROLS. I HOPE THEIR VIEWS WILL PROVIDE THIS COMMITTEE WITH GUIDANCE IN FORMULATING IMPORTANT EXPORT PROMOTION LEGISLATION.

THANK YOU, MR. CHAIRMAN.

Senator HARKIN. Having said that, I would like to call our first witness, Mr. Frank Swain, the Chief Counsel of the Office of Advocacy of the Small Business Administration. You are no stranger to this Subcommittee and we welcome you. As I said, your statement will be made a part of the record in its entirety. Please proceed.

STATEMENT OF HON. FRANK S. SWAIN, CHIEF COUNSEL, OFFICE OF ADVOCACY, U.S. SMALL BUSINESS ADMINISTRATION

Mr. SWAIN. Thank you, Mr. Chairman. I notice according to your facilities here that you have stop and go but no caution light. Therefore, I will attempt to be exceedingly brief in my remarks.

Basically our statement makes three points which we feel are important. Number one, that the Congress should strive to enact legislation that enhances the opportunities for export and does not serve as a barrier. Small businesses are free traders. I attended a lot of the State held conferences, and the National White House Conference, and there is not a flavor of protectionism generally among small businesses. They feel that open export markets are extremely important. When we start restricting our own import markets, that does, in the long run, get in the way of open and free export markets.

Second, as part of the process of opening export markets, although this Committee does not have direct jurisdiction over the negotiation process involving the special trade representative's office, there are ongoing discussions with Canada and upcoming discussions in the GATT round in Geneva which will have, I think, a great impact on the ability of small firms to engage in international trade.

I guess informally I would seek the Committee's interest in examining ways in which small business considerations can be more directly, or perhaps more formally, involved in that process by which the special trade representative's office negotiations on behalf of American businesses.

I am not suggesting that there is anything wrong with the process now. In fact, we have a very good ad hoc relationship going between our office and the USTR and the USTR offices vis-a-vis Canadian trade. I think the ongoing rules that will come out of the GATT negotiations are going to be very significant, and if there is a way to get small business formally factored into that process, in addition to whatever informal relationships we may be fortunate enough to make with the people that are doing the negotiating, I think that would be an important step that this committee could consider in conjunction with other committees of more direct jurisdiction.

Second, in terms of coordination of our own export assistance efforts, there are a variety, as the committee well knows, of agencies that are involved in various missions of export assistance. Certainly the Small Business Administration is part of that. We cannot do it all, but we feel we have an ability to do quite a bit in terms of export expansion.

I will note that I strongly agree with Administrator Abdnor's statement yesterday involving his specific reactions to the title in the House bill. We feel that the SBA does need to make a renewed emphasis on export expansion, but we do feel the House bill is a bit inflexible in basically channeling those activities exclusively through the Small Business Development Centers. Certainly SBDCs will be a part of that effort, but we do not feel that they should be the totality of that effort.

Finally, I think it is very important to note that while there is much talk about American competitiveness and expanding exports, we should not ignore the fact that there are some proposals and suggestions here in the Congress this year which we think would have a very dire effect on America's small business related to export because it would increase their direct costs.

There are a number of proposals in the labor area which the Small Business Committee has examined in other hearings this week. Let's not increase the cost of employment of American workers so much that we are exporting jobs rather than exporting products.

If you have any questions, Senator, I would be happy to take them. If not, I will be happy to give way to the real live small businessmen that are here.

[The prepared statement of Mr. Swain follows:]

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF CHIEF COUNSEL FOR ADVOCACY

STATEMENT OF THE

HONORABLE FRANK S. SWAIN

CHIEF COUNSEL FOR ADVOCACY

U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

COMMITTEE ON SMALL BUSINESS

SUBCOMMITTEE ON EXPORT EXPANSION

OF THE

UNITED STATES SENATE

ON

INCREASING SMALL BUSINESS PARTICIPATION IN

INTERNATIONAL TRADE

APRIL 30, 1987

- Policies that expand small business opportunities in exporting build on the strength of our economy; policies that protect us from change hurt small business in international markets.
- Federal policymakers are urged to:
    - Enact only those laws that encourage competition in the national and international marketplace;
    - Improve coordination of export assistance efforts; and,
    - Avoid regulatory policies which restrict small business hiring and competitive strength.

Mr. Chairman, I appreciate the opportunity to participate in the Committee's review of policies affecting small business exports. As you know, Administrator Abdnor has convened a management level task force at SBA to improve our assistance to small businesses wanting to export. I serve on that task force and am confident that, with your support, the steps outlined by Mr. Abdnor in his statement to you yesterday will be effective. The Administrator has submitted detailed comments on H.R. 1854 in response to your request. Beyond saying that I share his concerns with portions of that bill, I will not repeat that discussion.

I would like to take time this afternoon to expand the discussion of small business and international trade beyond the discussion of direct export assistance. The trade legislation being considered in the Senate and in the House addresses the broad public concern with the "competitiveness" of the U.S. economy. Small businesses have an important stake in this entire issue. In order to help small firms export successfully, we encourage Congress to address these issues: export assistance, reduction of foreign barriers to trade, and elimination of domestic regulatory or fiscal policies which hamper the ability of firms to respond to international markets. Increasing our international economic competitiveness depends on continued growth of the small business sector. Policies that expand small business opportunity build on the strength of our economy; policies that protect us from change hurt small business.

The ability to meet changing markets, to be competitive, is important to every business, not just those involved in international trade. In fact, most small firms are affected by international competition. Whether or not a business exports or imports, the product produced or sold may be, and probably is, manufactured and available from a foreign source as well. Even if what is produced is not subject to trade competition, chances are that the customer who buys the product or service may be affected by international markets.

The flexibility of our economy in all of its many constituent parts is essential to the competitive ability of those firms facing international competitors. As a result, small business concern is not only with import and export issues but is also about impediments to competitiveness that we impose on ourselves. Our long-term success depends in considerable degree on our ability to tackle those regulatory and legal burdens which are, in effect, domestic barriers to competitiveness.

Small business is growing in many industries, and prospering in the face of competition from large domestic firms and from international competitors. Small firms do this through their ability to be flexible and adapt to new technologies and markets. The same qualities that make small firms succeed in domestic markets need to be brought to bear on our ability to export.

As a major part of the "economic adjustment" mechanism in the U.S. economy, small firms discover new markets, create new products, find new markets for old products and find new ways to accomplish old tasks. While not every small firm embodies all of these attributes, the efforts of thousands of small firms produce the result. I think the Committee will agree that the opportunity to try, and to succeed or fail, is a vital national resource.

What policies can Congress address to insure that small firms increase their contribution to the flexibility of the U.S. economy and to the overall international competitiveness of American business? I suggest three areas of focus: foreign barriers to competition, export promotion and domestic barriers to competition.

Opening Foreign Markets

Small business owners with whom I have met over the course of 57 state meetings of the White House Conference on Small Business were overwhelmingly in favor of open and free international competition and opposed to protectionist legislation. Consequently, the success of the General Agreement on Trade and Tariffs (GATT) negotiations in opening markets is important to small business. Similarly the expansion of the GATT to include services is important to small business. The growth and long-term strength of the U.S. service economy depends on our ability to be competitive in international markets.

Of immediate interest are the U.S.-Canadian Free Trade Area (FTA) talks, which are important in themselves, but which also provide a rehearsal for many of the issues to be faced in Geneva at the GATT talks. We in the Office of Advocacy are working with the Special Trade Representative's office to ensure that small business views are considered and heard in the U.S.-Canadian efforts, with specific interest in investigating trade issues in the accounting and advertising sectors. SBA has met with small business owners in Buffalo, New York and Detroit, Michigan to discuss trade problems they may be experiencing in these two fields. It is our hope that the effort to consult with small firms will prove sufficiently important and informative to be extended to the full GATT negotiation.

Our office is planning a project to alert the small business community in Canadian border states to the opportunities that will be available to them under the FTA. Entrepreneurial small business owners will recognize the advantage of being prepared to expand trade with Canada when an agreement is reached. It is worth remembering that the United States and Canada have the largest volume of trade and investment of any two countries. Of further interest to small business owners is that the U.S. consistently records a positive balance in services trade with Canada, a sector that is small business dominated. In 1985 American services exports to Canada totaled $17 billion, and services imports from Canada totaled almost $8 billion. The Canadian market is worthy of serious consideration by small business owners seeking export opportunities.

Assistance to Exporters

Export promotion is the responsibility of several Federal agencies, including SBA. Rather than new programs or more money, the single request that I hear most from small business is for better coordination among Federal agencies and among Federal, state, local and private sources of export assistance. The White House Conference recommendation calling for a single trade department stems principally from this concern. The many steps underway at the Department of Commerce, at SBA and at the Export-Import Bank make a major re-organization unnecessary in my view; but the call for better coordination cannot be ignored. Cross training of staff, joint provision of services, improved communications and marketing of services, and increased attention to small business are all items for the current international trade agenda.

Yesterday Administrator Abdnor described his program to enhance SBA export assistance efforts. I support his plans and share his views with respect to the legislation approved by the House

Committee on Small Business. I look forward to working with other SBA offices to implement the Administrator's initiatives. They make important changes that will increase the services available to small businesses.

Reducing Domestic Burdens

Eliminating domestic barriers to competitiveness is the main objective of the Office of Advocacy. Over-burdensome regulations, laws that foreclose opportunities, and Federal mandates that sap small firms of their vigor are the targets of our efforts on behalf of small firms seeking to grow and prosper in the domestic economy. These same targets are appropriate to increasing the international competitive ability of U.S. firms and the economy as a whole. Delegates to the White House Conference on Small Business identified and called for action on many of these domestic barriers: tort law procedures, mandated health benefits, the Federal deficit, the Davis-Bacon Act and 56 others.

The President's competitiveness package recognizes the danger of these barriers and proposes action in several important areas of small business concern. I understand that it may be more tempting to legislate against foreign competitors than to take action on several difficult domestic issues that cost small business significant competitive advantage. I hope this is not the case. I look forward to continuing to work with Congress and with other agencies to insure that our policies do not limit our competitive ability. After all, these are burdens we place on ourselves without a foreign government or firm even lifting a finger to lessen the U.S. share of international markets.

Today total exports and imports represent twenty percent of our Gross National Product; by the year 2000 this will increase to more than thirty percent. The message is a simple one: we live in an increasingly international economy. Rather than hide from that change or seek to forestall it, we can choose to embrace the opportunity to change and to grow. I believe that our national ability to do that lies in large part in the small business sector.

To promote this contribution by small firms there are three steps to be taken:

1. Enact only those trade laws that will allow and encourage competition in international markets.

2. Improve coordination of our export assistance efforts, including Federal state, local and private programs.

3. Reduce restrictions on small businesses. This means eliminating regulations and laws that make it hard to innovate, to hire and train workers, or to provide products and services to willing buyers.

Mr. Chairman I look forward to answering any questions the Committee members may have at this time.

Questions and Answers for Frank Swain

Question

1. The Subcommittee is very concerned about the role of small business in international trade negotiations. We are concerned that the present system does not adequately involve your office or other appropriate representatives of the small business community. Do you know how many trade assistants currently are employed by the U.S. Trade Representative's office? Do any of these trade assistants have a strong small business background? Do any of these trade assistants handle only small business issues?

Answer

According to a response from U.S. Ambassador Clayton Yeutter to a recent inquiry from the Congressional Research Service, one of the Ambassador's staff members spends a small amount of time following the activities of Commerce's Industry Sector Advisory Committee on Small and Minority Business and monitors other small business trade matters.

Question

2. The House trade bill contains specific language for involving more parties in our trade negotiations. Yet, there does not seem to be any guarantees that small business will be represented in this process. Do you have any specific suggestions on language we can consider to ensure that the Office of Advocacy is involved in the efforts of our various trade negotiating teams?

Answer

Ensuring that small business interest in more open markets is represented in U.S. trade negotiations is an important task. The effort of the USTR to open up markets for all businesses is especially important to small business. There are many trade negotiating teams where the interests of small firms are at stake and the primary responsibility for representing those interest should rest with the negotiating team from USTR. To the extent that the Office of Advocacy at SBA can assist USTR in selected cases with economic information or with outreach to the small business community, we are prepared to play a role in the negotiations. On the other hand, I do not believe it is necessary to have a formal Advocacy presence on every negotiating team.

Question

3. The small business provisions in the House trade bill also call for a variety of studies which can affect the role of small business in international trade. Some of our witnesses have suggested that we move beyond requests for studies and take specific actions to enhance small business participation in world markets. Do you have specific suggestions on where we should substitute action-oriented language for the study provisions in the House measure?

Answer

The studies called for by section 4 of the small business title of the House trade bill are not currently budgeted...in fact the Office of International Trade has no research budget whatsoever. While several of these topics are being, or can be, conducted with some additional resource commitment, several will severely burden any SBA research budget. For example, the study of state tax systems is likely to cost over $1 million to complete and take considerably longer than six months.

Section 9 calls for studies of the globalization of production. Given the lack of data available to study this issue, and the significant difficulties in collecting it, this study will necessarily consist of theoretical analysis and whatever anecdotes we can gather. In addition it is not clear to me what policy relevance there would be as a result if we knew the answer. I do know that local content laws or similar ideas have always been disfavored by small firms (for example our SBA National Advisory Council in 1984 adopted a resolution opposed to legislation in this area).

Senator HARKIN. I just want to make sure I've got this one point. You say that there should be some formal procedures for incorporating small business concerns in the office of the special trade representative?

Mr. SWAIN. There should be some attention given by the Congress, by the committees of jurisdiction, to asking the special trade representative's office to consult, assertively consult, with the small business community. Right now they are organized by industry. They have people that are worried about electronics. They have people that are worried about telecommunications. They have people that are worried about heavy industry, textile, and so forth.

As I think this Committee heard yesterday, they do not have people that are worried about small business versus large business. I am not suggesting that that be the case. I am suggesting that in some of these areas the concerns of small business are more particular, or more peculiar than the concerns of the business community as a whole. We would hope that there would be a mechanism somehow that could be initiated administratively within the discussion process for taking small business concerns into consideration.

Senator HARKIN. Thank you very much, Mr. Swain.

Our first panel will consist of Mr. Gordon Johnson, president of Johnson Associates of Alexandria, VA; and Mr. Roger Little, president of Spire Corp., Bedford, MA. As I said, your statements will be made a part of the record. Mr. Johnson, you proceed, and then we will go right to Mr. Little.

STATEMENT OF GORDON O.F. JOHNSON, PRESIDENT, JOHNSON ASSOCIATES, ALEXANDRIA, VA

Mr. JOHNSON. Thank you, Mr. Harkin. It is a privilege to be here today with you.

Senator HARKIN. What is Johnson and Associates? What are you?

Mr. JOHNSON. Johnson and Associates is basically my own consulting firm, but I am really here to talk with you as the retired founder, president, chairman, of a company called LogEtronics which incorporates some 30 years experience in manufacturing with customers in 90 countries around the world. We got to $30 million in sales with 40 percent of our sales in exports in 1980 before the dollar strengthened. We had licensees in Europe and in Japan. We have worked closely with a Japanese manufacturer, and with several Danish manufacturers.

My statement to you today is to share with you some conclusions that have evolved from the last ten years of working on various advisory committees dealing with what could be done to involve more small businesses in exporting, and thinking about what would have made a difference for us in building up our exports faster.

I think it is really time for a new approach to this basic question. I have been fortunate to work with Milton Stewart on how to make the SBIR program effective and watched how that did since the 1980 White House Conference on Small Business when it was first proposed to the Federal Government as a national program.

The 1986 White House Conference not only recommended expansion of the SBIR program, but also looking at that approach to see where else it could be effective in solving problems that the Government wants solved, problems that are national priorities.

I believe we could apply this same approach in encouraging small businesses to export. It was in the 1986 White House Conference on Small Business "Report to the President"—I hope that you all got copies of this blue book. It is the most important bible I know of outlining what could be done for small business over the next 10 years. It is a remarkable product.

Recommendation number five goes with a label "Department of International Trade." That recommendation was actually the consolidated recommendations of a large number of States on problems that needed to be solved. Unfortunately, the things that needed to be done got buried under the "DITI" a label and a lot of people lost track them. I commend recommendation number five.

I am really here, however, to speak about recommendation number 35, which deals specifically with exports and has three recommendations. It carries the label "Export SBIR" because that is the key around which this was built. We felt exports were too important to be buried under any other recommendation such as the Department of International Trade.

That recommendation on small business exports was set out separately. You should look at that as the result of some 2,000 recommendations generated in almost 60 State and regional conferences with some 22,000 people involved in putting this whole book together. This ended up as recommendation number 35 in the top 60 priority recommendations.

It is a very simple proposition. Basically, set aside a small portion of the monies now being spent by the Federal Government to help develop international trade. "I am from the Government. I am here to help you." Establish an annual competitive awards program for exporters patterned after the SBIR program for research and development. Ask for small business proposals on how they themselves would propose to increase exports in their own businesses.

I commend to you particularly Congressman Sisisky's bill, H.R. 1937, which proposes the establishment of a small business export innovation program. I should comment that I did help draft resolution number 35. We originated it in the Virginia State Conference, which was the first of all the conferences leading up to the White House Conference itself, and Congressman Sisisky is from Virginia. We met with our congressional delegation in January. He has a keen sense of the need for effective marketing and picked up on this proposal immediately.

There are four important benefits that we could achieve with this bill: First and most obvious, it provides a meaningful action-oriented financial incentive for small businesses to plan how to increase exports.

Second, it is a powerful marketing tool for export service providers, both Government and private. I think this cannot be overemphasized. The problem with the export trading company legislation and other programs to assist the service providers, is how do you get the attention of the small business first of all. You do not do it by putting more money into the hands of the pushers, the providers of the services and say push harder, work harder, go talk harder, have more seminars, have more this, have more that. You have to get the attention of the small business person first and foremost.

This awards program offers that opportunity, to give those providers a marketing tool to go out and get the attention of the small businesses they want to help.

The third thing it would do is provide feedback to government policymakers on the real needs of small business exporters because then they will hear in their proposals just what it is small businesses think would help them.

The fourth opportunity would be to build case study success stories, data on what works and what doesn't work at the end of the period.

I will skip over a lot of my statement which deals with the 30 years of manufacturing experience which backs up why I think this would have made a difference for us in getting started. I think the basic trade issues have been talked over and over, the trade deficit on which we are bleeding to death, the importance of exports and the role small business could play.

My conclusion is that we have to do more than work harder. We have to work smarter. It is not that Government has not been trying with all the instruction booklets, the invitations for foreign trade missions, the international trade fairs, foreign market data reports, foreign buyer programs, and so forth. It is a long list of things that we are doing. It is all in the House small business bill. A lot of it is talked about there.

You asked for my thoughts on that bill. I have to say that I think it reads well, but most of it is studying, and I think the problem is too critical to send proposals back to committees again, back to study groups, back to the Small Business Administation for further study when we are bleeding to death.

Section 4 has eight different sections in it to be studied. Regarding section 8, the SBIR program, it is unbelievable to me that they would send that back for further study when it had such detailed exhaustive study and recommendations in the White House Conference.

The Congress says they have implemented the White House Conference report when they reauthorized and extended SBIR. That is not true at all. This book proposed significant improvements in SBIR that should have been taken into account, not referred back to the Small Business Administration for further study.

At any rate, I have some problems with the priorities that they set, but those are in my statement. I think the important message I would like to convey to you here in the Senate is that if there is one thing you could do with the House bill, it would be to convert some of their how-do-we-study-this-further language, when the patient is bleeding to death into some action oriented directives and programs.

I suggest to you that the export SBIR program is one that is critically important if indeed, as the House suggests, it is necessary to have aggressive marketing of export assistance programs in order to increase small business exports.

One of the most effective mechanisms to do that would be to mandate an export SBIR type of program as soon as possible because that would provide the marketing tool for this aggressive marketing. You can't market without a product to sell. The first thing you have to do if you have a lot of goods in the store, which they do, is to get the customer's attention and get him into the store. You have to do that. It is rule number one in marketing.

We do have the shared FSC, the shared Foreign Sales Corporation. The State of Delaware has a brochure to encourage exporters—this is their ad headline, "Fifteen Percent Federal Tax Exemption Possible."

Now the IRS thinks that is unpatriotic. They are objecting to it. They are trying to fight it, but it is going to take something like that, it is going to take messages like that to be able to get small businesses' attention. We could improve the small FSC. That is talked about elsewhere also.

I think the really new approach is the export SBIR. It is spelled out in four steps in my statement as to what needs to be done.

I would conclude by saying that we must export more, not import less. We will not accomplish that by shouting at small business and telling them how to run their business with people who do not know as much about how to run their business as they do. Small business people are smart. They know that there is more hassle, and it is going to take more than just seminars and people on the outside trying to change their priorities. Thank you for your patience.

[The prepared statement of Mr. Johnson follows:]

STATEMENT OF
GORDON O.F. JOHNSON
PRESIDENT, JOHNSON ASSOCIATES
BEFORE THE COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

APRIL 30 1987

Mr. Chairman and Members of the Committee:

I am here today to suggest that it is time for a new approach to the perennial question, "How do we increase exports by small businesses?" It is based on the premise that if we genuinely want to involve more small businesses in exports, the government should try listening to them instead of shouting at them. You here on this Committee already know how effective the SBIR program has been to encourage small business innovation in government R & D programs. I suggest to you that this same approach can be applied to encourage small business exports.

It is a very simple proposition: Set aside a small portion of the moneys now being spent by the Federal Government to "help" small businesses export, and establish an annual competitive awards program, patterned after the SBIR program for R & D, to ask for small business proposals on how they themselves would propose to increase exports in their own businesses. I commend to your attention particularly a bill introduced in the House by Congressman Norman Sisisky from Virginia, H.R.1937, to establish a Small Business Export Innovation Program.

An Export Innovation Awards program offers multiple benefits:

1. A meaningful action-oriented incentive for small businesses to increase exports.
2. A powerful marketing tool for export service providers, both government and private. (e.g. SBA and Commerce field offices, state agencies, export trading companies. universities, etc.)
3. Feedback to government policy makers on the real needs of small business exporters.
4. Case studies, success stories and data on what works best and what doesn't at the end of the period.

Who Am I and Why Am I Here?

My name is Gordon Johnson. I am President of Johnson Associates, which is my own small business consulting firm, and Deputy Director of the Center for Privatization, providing consulting services to the Agency for International Development. I am here today, however, to share with you my 30 years of experience and observations as the former President and Chief Executive Officer of LogEtronics Inc., in Springfield, Virginia, a capital equipment manufacturing company which I helped found in 1955, and built to approximately $30,000,000 in sales and 350 employees. Our products are photographic and computer imaging equipment for the graphic arts industry, as well as for aerial photography and medical radiography, and we have users of our equipment in over 90 countries around the world. We received the President's "E" Award for Export Expansion in 1979.

It was my special privilege to serve as a delegate from Virginia to the 1986 White House Conference on Small Business and to help draft Recommendation #35, "Export SBIR", which focuses specifically on how to increase small business exports. I have also served on a variety of boards and committees involved with international trade. such as the Advisory Committee of the Export Import Bank, the Commerce Department/USTR Industry Sector Advisory Committee for Small and Minority Business(ISAC-14), the U.S. Chamber of Commerce Small Business Council and Export Policy Task Force. and the Board of Directors of the Small Business High Technology Institute, one of whose primary objectives is to promote the original SBIR program for innovation in Research and Development.

THE BASIC ISSUE:

Our international trade deficit threatens the survival of this nation as a strong viable force among free world nations. We are living on borrowed time, financed by borrowed money. We are a debtor nation for the first time since 1914, but this time we are borrowing to support consumption instead of increased production capacity. While we should be grateful that foreign investors are willing to buy our bonds and invest in our country, we are being very naive if we think this method of financing our deficit can continue indefinitely--it has already continued longer than many of us ever thought possible. Sooner or later our excess of imports must be paid for by an excess of exports.

Where will the needed increase in exports come from? Obviously the recent drop in the value of the dollar in relation to the currencies of some of our major competitors will be a substantial help across the board for all present exporters. We will not, however, win back easily and quickly the markets lost when the strong dollar provided our foreign competitors with a "currency exchange subsidy" to fund their product improvement programs while we were cutting our costs to the bone and losing ground in foreign markets. Actually, it is my bet that the lower dollar will generate an increase in trade barriers in overseas markets as soon as we start to regain some of our lost market share.

SMALL BUSINESS - PART OF THE SOLUTION:

One important source of increased exports is small business. Some small businesses are already active in foreign markets, but there are many more which are not. Some are real marketeers, while others are simply order-takers when foreign customers seek them out. After all, there may be an export imperative for the nation, but there is certainly no export imperative for most small U.S. businesses. There is generally plenty of opportunity to grow with less risk, and more profitably, by expanding small business marketing efforts in known U.S. domestic markets.

If the nation really wants more exports by small business, it will have to face the fact that the incentives to export must somehow be increased. When it comes to international trade, small business owners are not as dumb, lazy or ignorant as many would have you believe. They know that export markets are more complex, and involve more hassle and more risk than their domestic markets. The obstacles are much larger in proportion to their total business, and the personal stakes far higher, than they are in bigger businesses. Small businesses were the hardest hit by, and least able to cope with, the strong dollar. Small businesses will now be much slower than large businesses to capitalize on the weakened dollar. Small businesses are also the hardest hit by non-tariff trade barriers.

GOVERNMENT HAS BEEN TRYING:

It isn't that government hasn't been trying! Over the past 8 or 10 years, we have seen innumerable seminars on how to export, instruction booklets on exporting, invitations to join foreign trade missions, international trade fair arrangements, foreign market data reports, prospective buyer leads, foreign sales agent lists, export financing assistance, credit guaranty programs, etc. etc. And then there are the Export Trading Companies out there looking for clients to serve, trying to do what Government has not been able to do effectively.

The House Small Business Committee's trade legislation contains an admirable recital of government activities which have not been as successful as we would have liked in the past, and which would supposedly be more effective if they are "aggressively marketed" by the SBA "working closely" with the other government agencies responsible for carrying them out.

HOUSE SMALL BUSINESS COMMITTEE PROPOSAL:

You asked for my thoughts on H.R. 1854, the House Small Business Title of the Trade Bill. I think it focuses too much on doing more of the same--more government paid people to come and take up my time with their ideas on what they think I ought to be doing in foreign markets and how I ought to do it. They may be very smart people, but I have problems with the idea that people in government know better how to run my business than I do. I have problems with a philosophy that seems to be saying that the U.S. Government has all these great services which simply need "more aggressive marketing" by the SBA to bring them to the attention of more small businesses and thus shift their priorities over to exports. I have problems with the idea that government can really succeed as the lender of last resort after the commercial banks have turned a proposal down. I have problems with the idea that our critically urgent trade deficit is going to be solved with more studies and reports, such as proposed in Sections 4, 7(b), 8, and 9. (Note that the White

House Conference on Small Business final report recommended "aggressively market small business export trade programs using private sector organizations or businesses.")

Certainly the government does offer some worthwhile help and resources for exporters. I wonder, however, if some of the proposers of "more agressive marketing" would be willing to go out and sell those wares on straight commission?

I do recognize that the House Committee had to stay within its jurisdiction and thus could only propose activities for the SBA. Probably one of the most important actions this Committee could take in the Senate would be to mandate action, instead of studies, by the appropriate government agencies on each of the 8 topics recommended for "specific study and reports" under Section 4, and do the same for Section 8 as well for the SBIR program itself.

The bill does contain some good ideas. I was particularly pleased to see an attempt finally to get meaningful data on what foreign countries are importing instead of the past emphasis on improved export statistics to tell all my U.S. and foreign competitors what I am exporting already. And I agree that we certainly should do a better job keeping track of how foreign governments help their small businesses export, so we can try to keep a level playing field for our own small business exporters. (These are some of the other ideas in Section 4 which are recommended for further study and reporting by the SBA, along with the "Export SBIR" and "Improved Small FSC" recommendations from the White House Conference report.)

If the House Committee really wanted "aggressive marketing" to increase small business exports, one of the most effective mechanisms to accomplish that objective would have been to mandate an Export SBIR type of program to start as soon as possible, instead of referring it to SBA for further study. If there is new money available for appropriation, why not put it in the hands of Export Innovation Award winning small businesses and let them choose the services that would do the most good for their businesses, instead of subsidizing export assistance providers such as the Small Business Development Centers which don't have to make a profit but supposedly know more about running a small business than the small business itself? (See Section 6 - $5,000,000)

THE FIRST THING TO DO IS GET THEIR ATTENTION!

One of the basic rules in marketing is concentrating first on getting the prospect's attention. Government marketers seem to forget that cardinal law. Intangible products don't sell themselves. You have to get attention and motivate the prospect to come to your store before you can sell him the wares inside the store. One way to get the prospect's attention is to offer specific financial benefits.

The same basic rule holds true for all the players on the scene today, both public and private, who are struggling to help small businesses do more exporting. They need to find a way to get the prospect's attention. In the case of small business, that's the owner of the company. Until the owner personally decides positively to commit to an increased priority for exports, nothing really different will happen within the company. Foreign travel will take place when, as and if there is slack time to do it; 50-cycle machines for foreign customers will continue to be worked on only after we are caught up on production of 60-cycle machines for domestic customers; sales and technical literature will get translated into Spanish or French when there is room in the budget to pay for it -- expenditures for foreign marketing are always the easiest to postpone until next year.

In order to get the attention of small business owner-presidents, there is a real need to create marketable, action-oriented financial incentives.

One small example of just such an incentive is the "Shared Foreign Sales Corporation" being actively promoted by the State of Delaware under the headline: "15% Federal Tax Exemption Possible". The IRS may find this marketing message objectionable and unpatriotic, but something along those lines is absolutely essential to get attention.

The White House Conference on Small Business went even further with respect to the FSC, and recommended a greater reduction in tax for the "Small FSC" as compared to the regular FSC, together with simplification of the transfer pricing formula so the small business could indeed calculate in advance of a sale what the tax benefit would be. (European competitors get that now with their refunds on VAT taxes at the time of sale.)

One of the genuinely new ideas to come out of the 1986 White House Conference on Small Business, was the proposal from the Virginia Delegation to establish an "Export SBIR" program modelled on the process developed under the highly successful Small Business Innovation and Research (SBIR) program to bring the talents and creativity of small business to bear on the nation's R & D programs. The SBIR program has been very effective in bringing small business and government together to solve problems with a minimum of paper work and bureaucratic procedures. Why not try this same approach to solve some of our nation's export problems? (Congressman Norman Sisisky has submitted H.R.1937 to establish a Small Business Export Innovation program in the House, and I commend it to your attention here in the Senate.)

The basic principle underlying the SBIR program is that government should define critical problems, and then seek out and listen to innovative solutions proposed by small business. The best of those proposals would then receive a grant award of a fixed sum of money to do a feasibility study. Instead of writing voluminous specifications which were then frozen and put out to the lowest bidder, the SBIR approach was to seek out the maximum performance for a pre-announced fixed price. Instead of the government deciding what should be in the specifications, it asked the small business bidders to spell out what they thought should be in the specifications, and then selected only the very best proposals.

This same basic approach could indeed be applied to encouraging small business exports. Instead of thinking up all the possible services which might be useful for a small business going into new overseas markets, why not ask the small business what it thinks it really needs to do to increase its exports? With the right incentives, in a competitive award situation, small businesses will seek out the best advice they can get, and the export service providers in both the public and private sectors will, in turn, seek out promising small businesses to whom they can offer help in preparing Export Innovation Award proposals.

SMALL BUSINESS EXPORT INNOVATION AWARDS:

The "Export SBIR" program called for by the 1986 White House Conference on Small Business, and embodied in Congressman Sisisky's bill, could be set up along the following lines:

1. Congress would specify a set-aside percentage within existing international trade development funds, sufficient to generate at least $4-5 million annually for a five year period. This would allow awards of about $25,000 each to 150-200 successful "Export Innovation" award winners, or an average of 3-4 winners per state. If the program is marketed effectively, this could generate 1,000-1,500 proposals per year, from 5-8,000 companies over a 5-year period.

2. The Executive Branch would contract with private sector media specialists to prepare a program announcement and direct mail campaign to potential small business participants. Much of the market outreach could also be done through private sector "multipliers" such as exprot trading companies, export marketing companies, export service firms and university business/international trade departments, as well as SBA and Department of Commerce field offices. All of these "multipliers" would have a strong interest in encouraging small businesses to participate in this program.

3. Small businesses would prepare "Export Innovation" award proposals, with a business plan outlining the most effective steps they could take to increase their export business. The program could be established on a 50:50 matching funds basis, so that awards of $25,000 would actually result in $50,000 of new funds invested by each award winner to increase exports. Proposals could include any new export related tasks, such as translation of sales brochures and technical literature, overseas market research, adaptation or redesign of products or services to meet foreign market requirements, after-sale customer follow-up, advertising in foreign trade journals, etc.

4. To be eligible to submit a proposal, the proposer should have been in business for at least two years to demonstrate that the business is past the start-up phase, and should have at least one year of actual sales of the

product or service which is the subject of the proposal to demonstrate the existence of a market and ability to service that market. The upper limit for eligibility could be set at $5,000,000 in export revenues, which is the limit for a "small" Foreign Sales Corporation (FSC), or it could be set at 500 employees as is done for SBIR programs.

5. Selection of winners should be made by a special panel of export-knowledgeable experts, with a majority selected from the private sector. Criteria for selecting the winners should be based on the most innovative strategy which seems to offer the geatest combination of percentage increase and absolute increase in exports for the firm submitting the proposal.

6. Phase I Award Winners would agree to prepare a report on the steps taken and results accomplished attributable to the award. The "Ten Best" of these winners would be selected for an additional Phase II award on the basis of degree of innovation and results accomplished measured in terms of both absolute and percentage increase in exports. These Phase II top award winners would be invited to describe their results at local and state small business conferences. All award winners would be expected to provide data on exports achieved for a 3-year period following receipt of the award in order to evaluate which techniques produce the greatest increase in exports.

FUNDING FOR THE SBEI AWARD PROGRAM

Use of a percentage set-aside for funding the SBEI program, as is done with the SBIR program, has many benefits despite the fact that existing federal trade development programs are carried out by in-house staff rather than contracted out as is done for government R & D programs.

The most important benefit stems from the fact that the SBEI program is really a marketing tool to generate increased export activity which in turn will create greater usage of our existing export service capabilities both public and private.

A second important benefit is that these service providers have a unique opportunity to listen to what their market is telling them about what small business really needs if it is going to increase exports. Most small business persons know much more about how to run their business and where to invest their time and resources than any outsiders ever will. Give them meaningful financial incentives to shift gear into exporting, and they will seek out and find the outsiders who have worthwhile ideas and advice on how to do it.

The SBIR set-aside approach justifies its percentage set-aside not only because it establishes a powerful new marketing tool for current federal, state and private programs, but also because it sets up a priceless feedback system for those information and service providers who are willing to listen to learn how best to meet the real needs of their market.

SUMMARY:

Our nation must reduce its deficit in international trade -- and do it soon! The best solution is to export more, rather than importing less. Programs to increase exports generate increased jobs in our most competitive "sunshine" industries and at the same time increase tax revenues to help reduce the budget deficit.

Small business represents a significant potential for increased exports, but will require meaningful and marketable financial incentives before it will divert more resources away from its present priority domestic markets.

To get the customer into the store, the first thing you have to do is get his attention! One way to get attention is to improve the tax benefits for the Small Foreign Sales Corporation to be more equivalent to the VAT tax refunds to European competitors. Another way to get attention would be to establish a Small Business Export Innovation awards program modelled after the approach used in the highly successful Small Business Innovation and Research program. Both of these recommendations were named among the final 60 top recommendations selected by the 1986 White House Conference on Small Business, from among over 2000 recommendations generated by 22,000 participants in over 50 state and regional conferences.

The Export Innovation Award program could be funded without any new appropriated funds by establishing a set-aside within present international trade development funds and would provide an extremely effective marketing tool for the many federal, state and private export service groups looking for ways to help small businesses do more exporting.

The return on investment for dollars spent in an Export Innovation award program should be high because these awards would be made on the basis of merit rather than entitlement. The program would sponsor what the small business wants and thinks should be done, rather than what the Government wants and thinks should be done.

This program is not a subsidy program, and therefore would not be illegal under GATT. Subsidies are entitlements which benefit primarily the marginal least efficient producers and allow them to sell at prices lower than their competitors. This award program would be highly selective and would not lead to unfair pricing by either the award winners or their industry itself. The program can also be defended as a research program to gather data on the most effective tools for small business exporters.

If we are indeed serious about encouraging more small businesses to increase their emphasis on exporting, it won't come about simply by standing on rooftops and shouting at them. It will take meaningful financial incentives. Most of them know a great deal more about how to run their business and where to invest their precious time and resources than any outsiders ever will!

GOFJ: 4/28/87

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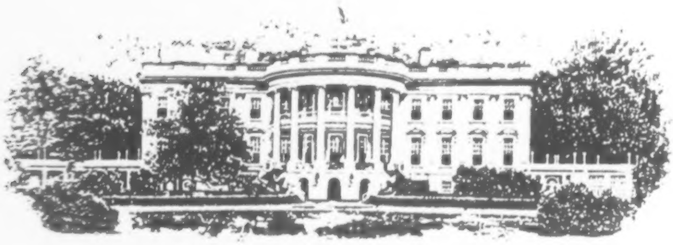
The White House Conference on Small Business



A Report
to
The President of the United States

35 "Export SBIR"

Increase exports by small business by:

a. Creation of an annual, competitive small business export incentive program similar to the highly successful SBIR[*] program, to be funded within existing international trade programs.

b. Retention and improvement of the current Small Business Foreign Sales Corporation tax incentives further to encourage exports of products and services.

c. Aggressive marketing of small business export trade programs using private sector organizations or businesses.

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[*] The Small Business Innovation Research approach is a competitive annual program which solicits small business proposals to solve problems instead of responding to government solutions. It offers a significant multiplier effect, requires no new government funding, and requires a commitment of private sector funds.

Question from Senator Sasser and answer from Mr. Johnson

Question

> Your testimony sets forth a very interesting proposal for increasing small business exports. You suggest funding for this "Export SBIR" program come from set-asides of certain agency funds. Can you suggest to the Committee what agency's funds are most appropriate for such a set-aside?

Answer

I suggest that any U.S. Agency or Department conducting programs or activities which relate to international trade development should eventually have a set-aside placed against its funding to provide for a Small Business Export Innovation Awards program using a similar approach to that of the present SBIR program for Research & Development. These agencies would include the Department of Commerce, the Department of Agriculture, the Export Import Bank, and the Agency for International Development, all of which are directly or indirectly engaged in programs to stimulate international trade in one way or another. An "Export SBEI" program in each of these agencies would provide valuable feedback for program managers as to ways they could increase their effectiveness in serving the needs of small business exporters, both present and potential.

Initially, I would suggest that it might be well to begin the program with the agency most directly concerned with assisting small business exporters: the International Trade Administration within the Department of Commerce. This would follow the same pattern established by the SBIR program which started first within the National Science Foundation. An SBIR program had been operating there for three years prior to the

1980 White House Conference recommendation that it should become a government-wide program applicable to all U.S. agencies with large R & D programs.

Within the International Trade Administration, for example, I believe there is approximately $84 million requested for the U.S. Foreign and Commercial Service and approximately $36 million for Trade Development. A 4% set-aside against these two programs would thus produce $4.8 million for a Small Business Export Innovation Awards program. Within this amount, $4 million could fund 160 awards of $25,000 each, or approximately three awards on average per state; $800,000 could be used for marketing "using private sector organizations or businesses," as recommended by the 1986 White House Conference, and for administration of the program. A larger percentage set-aside or a larger base would allow more awards, but at the beginning it is probably preferable to start with a target of approximately $5 million as the minimum funding to initiate a meaningful program.

As I noted in my prepared statement, an SBEI awards program would have multiple purposes. One important purpose is to provide much-needed feedback to officials charged with designing and operating programs to assist small business exporters. By setting aside funds for these Export Innovation awards directly from within programs to encourage international trade, we would be providing this feedback automatically.

The minimum funding required through the set-aside relates to one of the other purposes: The amount must be sufficient to allow a strong marketing program, as well as to fund the awards themselves. Probably the single most important objective of the SBEI awards program is to stimulate as many small businesses as possible to develop export increase programs. To accomplish this there must be an allowance for marketing and administrative costs. There must also be a sufficient number of awards to attract the attention not only the small business potential award winners, but also of the many export service providers,--federal, state and private,--who will see this as an opportunity to prove their value to a small business prospective client.

GOFJ: 5/10/87

Senator HARKIN. Mr. Little, welcome to the Subcommittee. Please proceed.

STATEMENT OF ROGER G. LITTLE, PRESIDENT, SPIRE CORP., BEDFORD, MA

Mr. LITTLE. My company is in the electronics industry, and we have been in business a number of years beginning with Government sponsored research and development. We have been able to convert a lot of Government sponsored R&D into products and then to export those products.

I believe the answer, or a part of the answer to competitiveness is high technology products. In our experience, if you have technology leadership in a product, then the rest of the world will come and find you and buy your products. Therefore, I recommend that the present Small Business Innovative Research Act be expanded and directed toward addressing the export imbalance problem.

My recommendations are simple, namely to take what amounts to one and one quarter percent of all the Federal lab R&D budgets for SBIR today and expand it in increments until we get to three and one quarter percent. It is important to recognize this does not require any new money. It requires a little more sharing by the big defense industries with small innovative businesses.

And the second part of the recommendation is to direct some of these resources toward products which can address the import/export imbalance. This is necessary because something like three quarters of the Federal budget is defense oriented, and it is very difficult to commercialize that technology.

On the other hand, the defense industry shows great interest in commercial spinoffs. So if they were told to address commercial spin through SBIR legislation, I think they would do this enthusiastically.

So the recommendation is simple. Increase the amount of money in the SBIR program and direct it toward import/exports. This recommendation was made to the House a month or so ago, and it does turn up as one of the study items in the House proposed legislation, H.R. 1854.

I think it is important that we take some action here. If you go through how long it might take to effect things and you begin by saying H.R. 1854 has to be passed, and then add 6 months to study things, and then go in and try to form additional or new legislation to accomplish these goals, and then to get that money to the small businesses that can create these new products, my estimate is it will take 4 to 5 years to come out of those studies with new products.

I really do feel that time is wasting here and we should take action and get something done. That summarizes my statement. Thank you very much.

[The prepared statement of Mr. Little follows:]

MP-87-08

Statement of

Roger G. Little
of
Spire Corporation

Concerning

STRENGTHENING AMERICAN COMPETITIVENESS IN WORLD MARKETS THROUGH THE SMALL BUSINESS INNOVATION RESEARCH PROGRAM

Before the
Subcommittee on Export Expansion
of the
Committee on Small Business

of the

United States Senate
Washington, DC

April 30, 1987

STRENGTHENING AMERICAN COMPETITIVENESS IN WORLD MARKETS THROUGH THE SMALL BUSINESS INNOVATION RESEARCH PROGRAM

1.0 INTRODUCTION

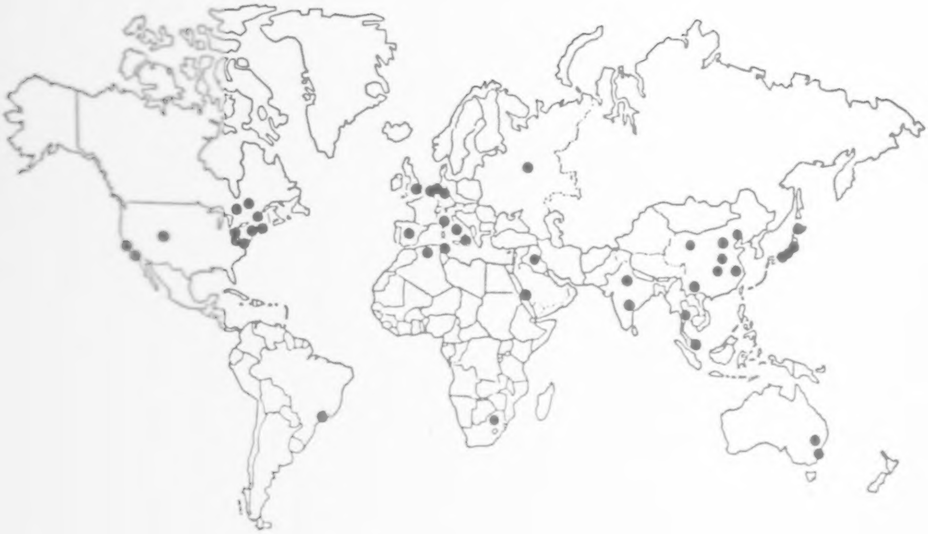
Spire Corporation was incorporated in 1969 and began doing government sponsored contract research and development work. Today, Spire Corporation, still a small business, is one of the world's leading suppliers of advanced semiconductor wafers; special processing machines; and processing services. Spire also provides services to industry internationally for the surface modification of metal components used in implantable medical devices, computers, and aerospace systems components. In addition, Spire is a world leader in photovoltaics (PV), having exported PV processing equipment to over 15 different countries throughout the world as shown in the attached map. We have therefore been quite successful in commercializing government-sponsored research for exportable products and services.

Based upon this experience we propose that small high technology businesses be mobilized for helping America win in the international market place. This mobilization can be achieved through an enhancement and appropriate direction of the existing Small Business Innovation Research program.

2.0 SBIR PROGRAM SUCCESSES AND WEAKNESS

The SBIR program, passed as Public Law 99-443, directs that Federal agencies to directly allocate 1 1/4% of their R&D budgets to small company competitions. This has been a very successful program involving hundreds of small businesses nationwide and demonstrated success in producing innovative new high technology products.

However, a major weakness in the SBIR program is that contracting is dominated by the Department of Defense's seventy-two (72) percent share of the federal research and development budget. Unfortunately innovative technology undertaken strictly for defense purposes is difficult to commercialize. These resources must be directed more towards consumer product spin-offs.



WORLDWIDE LOCATIONS OF SPIRE PV MANUFACTURING EQUIPMENT.

3.0 HOW TO MAKE U.S. MORE COMPETITIVE THROUGH THE SBIR PROGRAM

To achieve the objective of making the United States more internationally competitive and thereby improve our trade position, the following changes to the SBIR program are recommended:

(1) Increase the SBIR percentage of federal R&D from 1.25% to 3.25% in 0.5% increments over the next four years.

(2) Using one half of the increased funding increment each year, establish an SBIR commercialization policy for each Federal agency, including the Department of Defense, to commercialize the technology that is funded.

(3) Modify agency SBIR program solicitations to include development of innovative products which would be exports, such as to Third World countries, as well as competitive world-wide. Also allow development of innovative products that would substitute for present imports of consumer products from Japan, West Germany and other competing countries.

4.0 COMMERCIALIZATION OF DOD RELATED TECHNOLOGY

Even though some commercial spin-offs do result from Department of Defense R&D, these are generally fortuitous. The allocation of resources by the DOD to move technology to American consumer products would result in a much higher commercial application success rate. The Department of Defense is a strong proponent of commercialization of their technology. They should find this proposal attractive.

5.0 EXAMPLES OF WHAT COULD BE ACCOMPLISHED BASED UP SPIRE'S EXPERIENCE

The following examples illustrate what might be accomplished should these recommendations be implemented.

(1) Orthopedic Implants - National Institute of Health

Spire has developed a process for improving artificial hips and knees which are used in the human body. This process has been supported by the National Institute of Health and is finding wide acceptance in the orthopedic community. The devices that Spire processes are suited for the body size of Americans. The smallest size made is the largest size for the Japanese body. Spire is interested in developing innovative tooling for treating smaller components to be exported to the far east.

(2) Gallium Arsenide Semiconductor Wafers - Department of Defense

Spire is supported by the Department of Defense to develop new advanced semiconductor wafers for defense uses. In most cases these development efforts take the form of adding layers of atoms on top of semiconductor substrates such as gallium arsenide. The Defense Department is extremely concerned at this point that the principal suppliers of the substrates are the Japanese. The Defense Department therefore has begun to address initiatives to establish on-shore contractors. It would be in the Defense Department's best interest to establish a commercialization effort in order to fulfill their needs in the future. Although the military claims significant spin off to the commercial sector, directed commercialization efforts would yield much greater results.

(3) Ball Bearings - NASA

Spire has developed an advanced treatment using the ion implantation process for the surface of ball bearings to prevent them from wearing. This work has been supported by NASA's SBIR program. NASA, as well as the Defense Department, is quite concerned that the ball bearings are coming from overseas manufacturers. Examples are that Minibea has recently purchased New Hampshire Ball Bearing which is one of the major suppliers of bearings to the military community and the aerospace community. To help further commercialize this technology with American suppliers is in the best interest of NASA and the Defense Department.

(4) Photovoltaics - Department of Energy

The Department of Energy has supported Spire in developing advanced solar cells, i.e., photovoltaic devices which convert sunlight directly into electricity. The Department of Energy's mandate is to replace a significant fraction of imported oil for American electric utility demands. The problem is that with the present price of oil, the market for advanced energy technologies has dwindled in the U.S.

However, because about three quarters of the world's population does not have electricity, there is a growing need for photovoltaic solar energy in Third World countries to provide some basic needs such as water pumping stations, medical refrigeration, and village lighting. An SBIR commercialization program, from the Department of Energy, which addresses the export potential of its renewable energy technology products would be highly attractive to the Department of Energy and contribute significantly to our import/export imbalance.

6.0 SUMMARY

I believe that this proposal would mobilize one of American's greatest forces for winning in the international marketplace, small high technology business. I propose that these recommendations be incorporated into international trade legistations.

Questions from Senator Sasser and answers by Mr. Little

Question

1. Many in the small business community advocate an international trade summit for small firms patterned after the White House Conferences on Small Business. Do you support such a summit? What role can the United States Congress play in convening such a summitt? How long would it take, in your opinion, to organize such a summit?

Answer

1. An international trade submit for small firms patterned after the White House Conference on Small Business maybe of value. Frankly, small businesses such as Spire are so very busy on a day to day basis that such global involvement may not be a good use of the enterpreneur's time. I believe that the best approach to bringing small business to competitive international markets is to help the small business pursue its own interest.

Question

2. The Committee has heard conflicting testimony about the wisdom of utilizing Small Business Development Centers in export assistance programs for small firms. What are your thoughts on the ability of SBDC's to carry out an export assistance program?

Answer

2. I am not enthusiastic about using small business development centers for export assistance programs. I may however not fully understand the function and effectiveness of the centers to date. Small businesses must move quickly to markets that demand their products. To be slowed down through the interaction with a potentially casual responding organization may not be to the small business advantage.

Question

3. Your testimony makes many good suggestions about the Small Business Innovation and Research program. As you know, the committee has heard of a new proposal which calls for an export program patterned after the SBIR program. This proposal was one of the final recommendations of the 1986 White House Conference on Small Business. What are your thoughts on this Export SBIR proposal?

Answer

3. High tech products from small businesses are sought out by international customers. My testimony has presented the specifics of this concept.

The proposal to establish an export SBIR program has value. Assistance in providing resources to address export markets would be of use. This however would not be my top priority. An export SBIR could also cause loss of valuable time for small business. Often the lure of third world markets for instance can be a tremendous waste of an entrepreneurs time, efforts and resources. The way in which third world countries do business can be an expensive learning experience. Again, I am strongly in favor of expanding the Small Business Innovative Research Program resources to allow small high technology businesses to bring out new products which address both export markets and import substitution. By developing high tech products which are brought to the attention through for instance trade magazines, allow interested international buyers to prove their intent by coming to the US and dealing with the small business. This hurdle is useful in separating the real customers from the enormous number of world wide international travelers that just like to learn but have no money.

Senator HARKIN. Thank you very much. Spire is the leading manufacturer of PV equipment?

Mr. LITTLE. Yes, it is. One of the things we have been able to develop high technology manufacturing equipment to make photovoltaic sells and modules. Photovoltaics is the conversation of sunlight to electricity through semiconductors. We have shipped equipment to 20 different countries all over the world, especially to Third World countries.

If we had more research support to develop products for Third World countries rather than energy replacement for our utility grid, I think we would make more strides for instance.

Senator HARKIN. What is your cost of watt?

Mr. LITTLE. Right now it is running about $4 per watt. We have to get down below $2 to be cost competitive for the U.S. utility industry.

Senator HARKIN. Is that just a matter of scale, or is——

Mr. LITTLE. Scale is a good part of it, but also technology, but we are making progress. It is not going to take any breakthroughs, just a little time and a little increase in oil prices.

Senator HARKIN. It is coming. I don't mean to take the subcommittee's time. I just spent a lot of time on that in my other role in my other body for 10 years and I just wondered what had happened to the world photovoltaics.

Mr. LITTLE. It is progressing.

Senator HARKIN. I am glad to hear that. Thank you very much, Mr. Little.

Our next panel will be Mr. Gregory Higgins, State coordinator of the Small Business Development Center of Florida, Pensacola, FL; and Mr. Brian Davis, associate director, Alabama International Trade Center of Tuscaloosa, AL. Your statements will be made a part of the record, and if you could summarize them, I would be most appreciative. Mr. Higgins.

STATEMENT OF GREGORY L. HIGGINS, JR., STATE COORDINATOR, FLORIDA SMALL BUSINESS DEVELOPMENT CENTERS, PENSACOLA, FL

Mr. HIGGINS. Thank you, Mr. Chairman. I think I can save you some time. I believe it is important to point out with the help of this committee and the Congress that over the past 7 years a very effective network of assistance to small business has been created.

In the United States over the past 7 years, with the help of the SBA, we have delivered assistance to over a quarter of a million small businesses in terms of consulting, and over a half million have participated in workshops.

I think it is also important to know that these programs are not, as they are sometimes pictured, run by academics. We are not in the business of providing classroom solutions to real world problems. In Florida, for example, while all of our consultants do have MBA degrees, over half of them also have experience in small business.

In addition to the expertise on our own staff, we have relied very heavily upon the private sector for assistance in our training and consulting. Again, in Florida alone last year we utilized over 300 individuals in putting on our training programs in the State, and we had 24 private sector individuals that provided free consulting assistance to our class.

The point is, you now have a nationwide delivery system that can provide hands-on direct assistance in 42 States, Puerto Rico, the Virgin Islands, and the District of Columbia. I might note, Mr. Chairman, that Iowa has one of the best small business development centers in the United States, and I think that the evidence that it is one of the best is the support that the State Legislature provides directly to that center by appropriating significant dollars to it.

Now in terms of the legislation that is being considered, I would like to address the balance of my remarks to SBA's position which is that they don't feel it is necessary to earmark these dollars for the small business development centers, that they should be permitted to allocate these as they think is appropriate.

I would suggest if that in fact happens, if they are given that kind of leeway, we will see few if any of those dollars. The record of this agency since the beginning of the SBDC program has been completely negative. For example, in 1980, the Congress mandated that the agency set up a clearing house for small business development centers. It was to be an instrument that would be useful to small business development centers coming on line. The agency has never bothered to do that. They claim that they did not have the money.

At the same time, though, they did set up an extremely expensive management information system that did not collect the right information, never managed the information, and as far as I can tell cannot even count. I think they have finally decided that they are going to pull the plug on that program. So they could not find the money for the clearing house, but they could find the dollars for a system that will not work.

I think we have a very recent example of what is likely to happen if the agency is given discretion. About a month or so ago we discovered, totally by accident, that the agency had circulated a request for proposal to provide business assistance to minorities. As I say, we discovered this entirely by accident. No SBDC was invited to participate. By the time we found those funds were available we had about 15 days to respond.

I am not certain how many centers responded; but Florida did. I am waiting to see whether or not that application will be given any serious consideration. I would point out, too, we, like other SBDCs, already have major minority participation in the small business development center in Florida.

Another example of what I think we are likely to run into if the agency is given discretion is that they will never be able to handle it. We have been in this program in Florida since the mid-1970s when it was a pilot program. In spite of that, we have to start the application process in June in order to get an application approved by that agency in January. In only 1 year since we began have they given us a contract on time.

If it takes 8 months for a program that has been in existence for 7 years, how long is it going to take them to process something that is brand new to them? I don't think we will see a nickel of that money.

The other thing I think is you need to look at the record of what small business development centers have done in terms of international trade, my written testimony provides some information on that. I am not going to go into great detail, because Mr. Davis is going to tell you about what they have done in Alabama without a great deal of urging from the agency.

I do think that rather than give the agency the flexibility to allocate these dollars as they see fit, the committee ought to seriously consider putting some language in the bill to force the SBA to respond to the SBDC proposals in a timely manner, and in a somewhat rational manner. It would be a welcome relief to us. Thank you, Mr. Chairman.

[The prepared statement of Mr. Higgins follows:]

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STATEMENT

of

Gregory L. Higgins, Jr.
State Coordinator

Florida Small Business Development Centers
Pensacola, Florida

BEFORE

United States Senate
Committee on Small Business

Washington, D. C.

April 30, 1987

A STATE UNIVERSITY SYSTEM SERVICE PROGRAM DEDICATED TO THE INDEPENDENT BUSINESS COMMUNITY
AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION INSTITUTION

It is a real pleasure to appear before the Senate Committee on Small Business because this gives me the opportunity to personally thank the Committee for the support and encouragement provided to the Small Business Development Center program.

In my remarks, I want to provide a very brief description of some of the export development activities occurring in a few of the Small Business Development Centers around the United States and specifically in Florida. Following that, I will make some comments on H.R. 1854.

With the support of the Congress and especially with the support of this committee, the Small Business Development Centers have become a nationwide network representing the major source of management assistance in the country. Since this program began in 1980, over one quarter million small businesses have received one-on-one assistance from Small Business Development Center consultants. Over one half million have participated in workshops. Last year in Florida alone, we provided 12,000 clients over 70,000 hours of free, one-on-one management assistance and conducted over 700 seminars attended by 26,000 businesspersons. Small Business Development Centers are located in 42 states, Puerto Rico, the Virgin Islands and the District of Columbia. The network has over 600 locations at which small business owners can seek advice. The point is, the system to provide information and assistance to the small business community is in place and it works.

Contrary to a persisting myth, the Small Business Development Centers are not staffed by academics providing classroom solutions to real problems. In Florida, for example, all of our consultants have MBA's but more importantly, over one half of them have owned or operated small businesses. We also use private sector individuals in training and consulting. In 1986, over 300 such professionals assisted in our programs. In Florida's pilot program on international trade, for example, in addition to our own staff, we are using five volunteer consultants who have an average of 20 years experience in international trade. A document describing their qualifications has been included in the materials.

In terms of international trade development, several Small Business Development Centers have implemented programs to assist firms to identify and successfully compete in overseas markets.

You will be hearing about one outstanding program in Alabama; and, there are others.

In the Pennsylvania Small Business Development Center system, both the Wharton School and Lehigh University have export development programs. In 1986, the Missouri Small Business Development Center was awarded a contract to operate the Mid-America Trade Adjustment Assistance Center in a six state region including Missouri, Kansas, Oklahoma, Arkansas, Louisiana and Texas.

By using the Small Business Development Center system, the assistance under that program is now available in 50 locations rather than in the one location as had previously been the case.

In the Georgia Small Business Development Center system, international trade development activities have been designed to complement the activities of the state Department of Commerce. Specific programs to assess potential for export have been implemented and programs to match sellers with overseas buyers are being developed.

In Florida, last year, while we had no structured international trade program, we did offer 10 exporting seminars attended by about 300 people and provided 132 clients with about 600 hours of free consulting.

Based on that limited program, we determined there was significant demand for assistance; and in January of this year we began a pilot program with two of our universities in Southeast Florida, Florida Atlantic University and Florida International University. The pilot program will, in 12 months, provide 32 seminars and workshops attended by about 900 people. Because it is necessary to go beyond the workshops with one-on-one follow-on assistance we will provide over 2,800 hours of such assistance.

One weakness we did identify was a lack of adequately trained professional personnel; so this pilot program will develop internships and assistantships in international trade within the university system. The program will also have an evaluation dimension. If the program is successful we will, of course, adopt it in other areas of the state.

The one thing I have learned by reviewing international trade development activities in several states is that each is unique so it can address specific state needs and be coordinated with other state, federal and local programs. There is not a single formula that works, there are many; and that brings me to H.R. 1854.

As a Small Business Development Center director and as a representative of the Association of Small Business Development Centers, I whole heartedly support H.R. 1854. The bill identifies those areas in which small businesses need assistance and provides what I believe will be a cost effective means of providing the assistance. With respect to the Small Business Development Centers, resources are provided to allow this system, which is already in place and is operating effectively, to become more involved in assisting businesses in increasing their productivity through the identification and adoption of appropriate technology. Further, the bill provides resources necessary for the Small Business Development Centers to assist businesses to identify and to successfully compete in the international marketplace. In addition, this bill has sufficient flexibility so each Small Business Development Center can develop a program to meet the specific needs of the area it serves.

So far as I can tell there are only two areas in need of improvement. First is the matter of matching funds. H.R. 1854 requires the same match as we currently have for the basic program. While I do believe, in time, such a match might be appropriate, I think the beneficial impact of this legislation would be greater if the matching requirement was phased in. This would allow Small Business Development Centers, many of which operate on different fiscal years, to approach their state legislatures or host institutions for support. I suggest, at least in the first year, a 25 percent match, with allowance for in-kind contributions, might be more appropriate.

The second problem is, unfortunately, the Small Business Administration. Quite frankly, I believe the record of this Agency's behavior with respect to the Small Business Development Center program is so negative that special provisions will have to be included to insure the Agency does not ignore the will of Congress.

Let me just give you a couple of examples of what we are up against. In 1980, Congress required the Deputy Associate Administrator to establish a clearinghouse to provide for exchange of information. While this would have been extremely useful, particularly for new centers coming on-line, the Agency has failed to act. At one point the Association of Small Business Development Centers was requested to and did prepare a proposal for a clearinghouse. That proposal has never been acted upon. While the Agency could not find funds for the clearinghouse required by Congress, it did expend an enormous amount of money to develop and impose upon the Small Business Development Centers a Management Information System that provided no useful information to the Agency or the Small Business Development Centers. I understand the Agency has finally realized the system will never work and is ready, now, to pull the plug on it.

While it may be a small agency, I think the Small Business Administration is probably a contender for the heavyweight title in foot dragging. After seven years experience with the Small Business Development Center program, do you know that in order to get a continuing program funded in January, I have to start the application process in June and in only one of the last seven years has the Small Business Administration, even with this eight month lead, funded the program on time.

And, I think most of the committee members are thoroughly familiar with the Agency's proposed Small Business Development Center regulations published in the Fall of 1986. These regulations, if implemented, would destroy the Small Business Development Center program.

The point is: unless some very specific language requiring the Small Business Administration to act rationally and expeditiously is included in this bill, I am not at all certain we will see the Agency implement the very worthwhile program represented by H.R. 1854.

Thank you, Mr. Chairman, for the opportunity to discuss this with the committee.

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May 7, 1987

Ms. Tracy Crowley
Hearing Clerk
United States Senate
Committee on Small Business
Russell Senate Office Bldg., Room 428A
Washington, D.C. 20510

Dear Ms. Crowley:

In response to the questions posed in Senators Sasser and Bumpers' letter of May 4, I am pleased to provide the information which follows.

Question 1. Allegation that Small Business Development Centers lack expertise.

For the Small Business Administration to contend the Small Business Development Centers should not be the agency to provide assistance to small businesses in international trade development because the Centers lack expertise, is inconsistent with both the position taken by the agency in 1985 and reality.

When the Small Business Administration developed its plans for the future of Business Development, those plans specifically stated "The Small Business Development Centers will develop a plan and an operating budget for an International Trade Center (ITC)." In elaborating on the Centers' role, the Small Business Administration's plan also called for the Small Business Development Centers to become involved in the following activities:

a) development of export resource directories;
b) identification of firms with high export potential;
c) export counseling and assistance;
d) technical export consulting;
e) assistance to trade show participants;
f) networking with local international trade organizations; and basic export training.

It is also worth noting that each year the Small Business Administration in its Program Announcement for the Small Business Development Centers describes an international trade center as an optional element of work.

It is difficult to understand how the Small Business Development Centers, which were viewed as an ideal delivery vehicle in 1985 and in the current program announcement, could have lost so much expertise in two years.

A STATE UNIVERSITY SYSTEM SERVICE PROGRAM DEDICATED TO THE INDEPENDENT BUSINESS COMMUNITY
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On the specific point as to expertise, it is or should be clear Small Business Development Centers have been able to call upon or develop the expertise necessary to operate effective international trade programs. Even without legislation or direction from the agency, nine states have developed effective programs. In Florida in response to a recent inquiry by the Small Business Administration, we identified sixteen of our employees who have international trade experience.

Other state and federal agencies, too, have recognized the value of employing the Small Business Development Center network. Because of the Small Business Development Center's extensive system of offices (over 600 in 42 states) and because of its continuous contact with and knowledge of the small business community, the Small Business Development Centers have been recognized by several other federal agencies as the most effective system to deliver information and assistance to this sector of the economy. The Defense Logistics Agency of the Department of Defense, the National Innovation Workshop Program of the Department of Energy and the National Bureau of Standards, and the International Trade Administration of the Department of Commerce have all called upon the Small Business Development Centers to help in delivery of their programs.

Question 2. Level of participation in program.

If legislation similar to HR 1845 were passed, it is unlikely every state Small Business Development Center would establish a comprehensive international trade program; and it would be unwise to require each to do so.

One of the strengths of the Small Business Development Centers is the flexibility to respond to local needs and to construct programs to address needs not being met by other public and private agencies. In some states in which there are already comprehensive trade development and technology transfer programs, the Small Business Development Centers would probably limit their activity to outreach and referral and would be available to assist with the general management and financial planning required of any business entering a new market. In other states, a comprehensive program would be required. Flexibility as to type and level of participation should be retained.

Question 3. Safeguards to insure the Small Business Administration implements the provisions of a trade bill.

Given the Small Business Administration's extremely negative attitude with respect to the Small Business Development Center program and the agency's apparent inability to act in a timely manner, the following safeguards might insure the agency acts as intended by the legislation.

First, within 15 days of the passage of the Act, the Small Business Administration should be required to establish a committee composed of four representatives of the agency and four Small Business Development Center directors, selected by the Small Business Development Center directors, to develop the criteria for the evaluation and selection of international trade and technology transfer proposals.

Within 30 days from its formation, the committee should reach consensus on the criteria established and should report on these criteria to the oversight committee, of Congress.

Within 15 days of the establishment of criteria, requests for proposals should be sent to each Small Business Development Center with the requirement the Small Business Development Center respond within 45 days.

Upon receipt of a proposal, the Small Business Administration would be required to act within 30 days. Failure to act within that time-frame should constitute approval as submitted.

Question 4. Funding mechanisms.

While in the long term it is appropriate to require the same level of commitment of non-federal funds as under the regular Small Business Development Center program, to start the program quickly and to involve as many locations as possible, an initial lower matching rate would be advisable.

It is recommended in the first year at least a 25 percent match be required, with indirect and inkind contributions eligible as match. This would allow states and universities with differing fiscal years to come into the program, and to build subsequent match into their appropriations process. In the second year you might move to 40 percent, of which at least half must be cash, and, in the third year, the match required under the general Small Business Development Center program would be appropriate.

On the matter of match and use of funds, the committee might wish to consider limiting the allowable percentage of indirect costs charged by participants. Under the current mechanism, indirect costs are limited to 20 percent.

As to funding requirements, Florida is funding an international trade center at almost $200,000 in an area serving a population of 4 million. This center does not meet demand for services. Our limited experience indicates to be effective, we will have to almost double the current level of effort to serve that one area. If we are to expand the program to the balance of the state, the costs will be reduced somewhat since some services such as research, identification of trade leads, and publication of manuals can be centralized. In Florida, a mature program will probably cost about $1.2 million, half of which would be paid by non-federal resources. On a national basis then, if the ratio of population to program size is constant, the program would cost about $20 million, one half of which would be borne by the federal government.

In its initial stages, however, we would phase in new operations over a three year period; so I expect, if other states are like Florida, $5 million represents the maximum which could be cost-effectively used in the first year.

Question 5. Activities to be emphasized.

Our experience indicates a key to successful entry of a small business into an overseas market is the availability of one-on-one consulting to not only guide these businesses through the initial confusion associated with exporting; but also through the planning for changes in management and financing required in the entry into any new market.

It is also important to understand the critical importance of technology transfer and its relationship to the ability to export. Small businesses frequently have the potential to realize dramatic gains in productivity and consequently dramatic increases in their ability to compete through the adoption of new technology. Small businesses, however, rarely have the staff capacity to identify and adopt these technologies. In this context, the Small Business Development Centers can provide the mechanism to identify and to introduce appropriate technology into the small firm, and to assist in identifying and assisting the small businesses' entry into new markets.

One additional area particularly suited for treatment by Small Business Development Centers is the development of the capacity of educational institutions to provide training for individuals to participate in international trade. In Florida, since the lack of experienced professionals has been identified as one obstacle to trade development, our pilot program will develop university curricula and internship programs to provide practical training in international trade.

Because of the wide variety of experiences and situations in the states, the legislation should be permissive and flexible to allow each Small Business Development Center to craft a program to meet local needs, and to complement rather than compete with or duplicate other activities.

I surely appreciate the Committee's interest in and willingness to hear the views of those of us involved in the Small Business Development Center program.

Sincerely,

Gregory L. Higgins, Jr.
State Coordinator

GLH/dd

cc: Mr. Steve Grabenstein

Senator HARKIN. Let me say we do have a new Director of the SBA, and I think that he is more inclined to support the Small Business Administration and what its role is, what its historical role has been, than the acting person.

Mr. HIGGINS. I understand that, but I have yet to see the problem go away. In testimony today we saw the problem is still there.

Senator HARKIN. It is going to be there for a while. It has to be better. It cannot be worse. Mr. Davis.

STATEMENT OF BRIAN K. DAVIS, ASSOCIATE DIRECTOR, ALABAMA INTERNATIONAL TRADE CENTER, TUSCALOOSA, AL

Mr. DAVIS. Small businesses clearly, from our experience, need help in exporting their products overseas. They need a variety of things. They need to identify and evaluate demand for their products, competition, market share, and foreign distribution patterns. They also need help in understanding foreign culture, business practices and the level of economic development in other countries.

With the development of use of new technologies, changing markets, and automated manufacturing, small businesses also have to evaluate and identify new technologies, new products, new manufacturing processes, new inventory systems, and new product applications in order to improve their competitive position.

Access to this kind of information is very difficult and it may not even be located within the United States. Once the information is located, it must be analyzed thoroughly according to the goals and objectives of small businesses.

We feel that small businesses can not accomplish these tasks alone, but they need to form cooperative partnerships with intermediary organizations at the Federal level, State level, and local level to make the process easier, and to ensure results. These intermediary organizations really have to make a commitment to increase and build up their own international expertise, take actions for small businesses, and find new ways to really improve the export performance and competitive position of small business.

We were set up in 1979 in Tuscaloosa at the University of Alabama. We were one of the first university-based trade centers in the U.S. with the goal to increase international business activity for small companies. Our services today include international market research. The most special service that we have is one-on-one, in depth business assistance. We are also involved in business, language, and cultural training, and we have a new program involving technology transfer to encourage licensing and joint ventures.

We take a strategic approach to our work by targeting specific state industries such as forestry or high tech that have high export potential. We also leverage the financial resources of the SBDC system by bringing in additional funding with similar export objectives, and we also take a results oriented approach to our consulting to produce export sales, licensing agreements, and joint ventures.

In our 7 years of operation we have never done a mandate to produce results. It is something we have taken on our own initiative.

Currently with our contract as an SBDC we work with over 300 small businesses and conduct eight seminars each year. About 250 of those companies receive what we call basic educational assistance which is really designed to help them become active exporters in the future. The remainder of those 300 companies receive active ongoing assistance that really helps them get sales.

In the past 7 years we have worked with over 1,500 small companies in our State, and by focusing our efforts on the companies that are most capable of exporting, we have had since fiscal year 1983 and 1984, over $45 million in export sales for our clients. That is based on 34 companies. Each of those companies has received over 100 hours each in counseling. That figure of $45 million reflects only sales that were made from our contacts and our research that we provided to those companies. It does not give an accurate picture of the total export sales that were generated after the fact.

I would like to say also that exporting may not be the best alternative for small businesses to gain access to foreign markets. For some companies licensing or joint ventures may also be a viable solution, and we have developed a service called the Technology Transfer Partnership Service to link companies with overseas business partners.

When small businesses are linked with foreign joint venture partners or licensees, they can obtain special expertise required, and also they can gain access to valuable foreign customers through distribution channels that are already in place.

Small businesses also need access to technology that may have been developed overseas to improve their competitive position here and also abroad. This service enables those companies to do that by offering partner searches, partner evaluations, and helping them in negotiating.

We support the legislation because it establishes exporting and technology transfer as national priorities for small business.

A couple of observations that I have for consideration by the committee. First, the proposed legislation does not address alternative foreign market entry strategies such as licensing or joint ventures. It also, secondly, doesn't address the international dimension of technology transfer, that is, the sale of copyrights, patents, and know-how across national borders.

Small businesses also need access to technology from abroad, and I think our programs could be strengthened substantially by establishing linkages and partnerships with foreign based laboratories, research institutes, and also universities.

From our experience, thirdly, implementation of the proposed legislation could be difficult due to personnel and staffing considerations. It has been our experience that it is very difficult to find Americans with both the international business skills and foreign language proficiency needed to assist small businesses with practical export problems and initiatives. We feel the root of this problem is our educational system. Just like our companies, it has not changed its programs to respond to the realities of our global economy.

In conclusion, I would like to say from our estimations the demands for the services in Alabama through the International Trade Center are greater than our ability to respond effectively and timely. We feel like with increased financial support and hard work the economic impact of our programs and others can be enhanced.

I would like to encourage the committee to continue its work to understand global problems and competitive forces at work and make appropriate commitments and take actions. Hopefully we will have strong new export initiative for small businesses. Thank you.

[The prepared statement of Mr. Davis follows:]

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SMALL BUSINESS TRADE COMPETITIVENESS AND INNOVATION ACT

TESTIMONY FOR THE

EXPORT EXPANSION SUB COMMITTEE OF THE SENATE
SMALL BUSINESS COMMITTEE

BRIAN K. DAVIS
ASSOCIATE DIRECTOR
ALABAMA INTERNATIONAL TRADE CENTER
APRIL 30, 1987

I. INTRODUCTION: The Need for Strategic Partnerships for Assisting Small Business in Exporting and Technology Transfer.

Small businesses need strategic partnerships in order to survive and compete in the global market. Strategic partnerships with U.S. and foreign based firms for marketing and distribution, exporting, licensing, and joint ventures will play an important role in taking advantage of future market opportunities.

Small businesses need assistance. Small firms need to identify and evaluate new technology, new manufacturing processes, new product applications, new markets, new inventory systems, and new competition. In addition, small firms must analyze this information and determine if it is suitable or adaptable for its own goals and capabilities. Access to this information, which may not be located within the U.S., is difficult. Small businesses often lack the skills and time to properly evaluate and analyze this information.

Small businesses need help to overcome the barriers involved in exporting products abroad. Exporting requires a financial and management commitment to develop overseas markets. It requires an understanding of foreign business practices, language and culture, and of specialized shipping and payment procedures. Important elements such as demand for products, competition and market share, foreign sales and distribution patterns and the best agents and importers for products must be identified. Exporting is a difficult process for firms inexperienced in international business.

Small businesses need to make a strong commitment to develop a global strategic plan, build up its international expertise, and take actions. Exporting may not always be the best alternative for small businesses to gain access to a foreign market. For many firms, licensing or joint ventures may be a viable solution. By linking up with foreign joint venture partners or licensees, the small U.S. firm can obtain the special international expertise required as well as access to valuable foreign consumers throughout established distribution channels.

Small businesses need to determine how to improve their competitive position through the internationalization of their firm. The environment small firms operate in is characterized by the development and use of new technologies, changing markets, flexible and automated manufacturing, and the decline of the manufacturing sector in favor of the service and technology sectors. By acquiring new technology and equipment developed in the U.S. and abroad, small firms can, with the proper planning and financial resources, change their current strategies to survive in the competitive environment.

Small businesses cannot accomplish these tasks alone. They need to form cooperative partnerships with "intermediary" organizations at the federal, state and local level that can make this process easier and that can insure results. By working together to understand global trends and competitive forces, make appropriate commitments, and take actions a nation can develop a strong export economy for its small businesses.

The following text summarizes the role of the Alabama International Trade Center (AITC) in providing intermediary services to small businesses in the State of Alabama. Special attention is given to its programs for 1) increasing exports and for 2) international technology transfer through licensing and joint ventures.

II. THE ALABAMA INTERNATIONAL TRADE CENTER: A STRATEGIC APPROACH TO PROGRAM DEVELOPMENT.

Background

The Alabama International Trade Center (AITC) was established as one of the first University-based international trade centers in the U.S. Since its inception in 1979, as a specialty center under the U. S. Small Business Development Center Program and through contracts with the State of Alabama, the AITC has served as a model to foster and support international trade and investment for small and medium sized companies.

It's GOALS are to 1) increase small business exports, 2) to increase forest product exports, 3) to increase joint venture and licensing activity, 4) to increase awareness among business and government about the global environment, and 5) to assist and support various state government agencies to increase international trade and foreign investment.

The SERVICES of the AITC for its clients in government and business include: 1) international market research to identify international trade and foreign investment opportunities, 2) one-on-one international business assistance--research, strategic planning, and follow-up, 3) international business, language, and cultural training, and 4) Technology Transfer Partnership Service: partner search, evaluation, negotiation for licensing and joint ventures.

Resources

The AITC is located in Tuscaloosa at the University of Alabama which is committed to industrial and economic development, particularly with regard to international business initiatives. This enables the AITC to draw upon the expertise of the University's human resources as needed and utilize its extensive research facilities. The AITC plays an educational role by providing students practical international business training, working as part-time staff researchers. It is currently staffed with thirteen persons: four full-time, 3 clerical, 6 graduate students. All consulting staff have graduate degrees in international areas, speak foreign languages, and have business and travel experience.

The AITC operates as a non-profit organization on a contract basis. The AITC currently works with the U.S. Small Business Administration - Alabama Small Business Development Center Consortium, the Tennessee Valley Authority, and private companies. The newly created international staff position of the Alabama Forestry Commission is housed at the AITC. Past contracts have included work with the State of Alabama, Birmingham Chamber of Commerce, City of Dothan and Selma, the Madison County Commission, and over 1,500 small and medium sized Alabama companies.

The AITC serves as a major resource and support organization for state government agencies involved in international business development. The AITC will continue its working relationships with Alabama Development Office, Alabama Forestry Commission, and Alabama Department of Agriculture and Industries, as well as numerous private and public export multiplier organizations. It is established as an associate office of the U.S. Department of Commerce District office in Birmingham. This approach leverages the resources and strengths of each organization and increases the likelihood for successful results.

Small Business Exports

The AITC has entered its seventh year as a specialty center of the Alabama Small Business Development Center Consortium. Under this contract, the AITC is currently required to counsel over 300 small businesses and conduct over 8 seminars each year. Approximately 250 of these firms receive a basic level of educational assistance which includes export mechanics, introduction to letters of credit and shipping, simple inquiries and help in understanding the commitment necessary to export. The majority of these firms are not capable of exporting or are unprepared. The educational program is set up to help these firms become active exporters.

Approximately 25-50 firms each year receive active and in-depth assistance geared to develop sales and achieve results. Extensive research is developed on overseas markets, competition, sales and distribution channels and foreign buyers. Companies are encouraged to travel, participate in trade shows, and reciprocal visits are arranged for the foreign buyers.

This program, which is designed to help small firms export, has produced since FY 1983-1984, over $45 million in export sales from 34 companies, each of which have received an average of 100 counseling hours. A survey is conducted in the third or fourth quarter of each year of these firms to determine results based on research, leads and strategy recommendations provided to the company by the AITC. This information does not reflect total export sales or subsequent export sales after the survey. It does not quantify the appointment of agents or the conclusion of a licensing or joint venture agreement.

Approach

The AITC takes a strategic approach to program development which has contributed to its success. Programs are developed based on the needs of an industrial sector in Alabama, the sector's economic growth potential, and its importance to the economy of Alabama. Extensive research and sales contacts are generated based on the needs of sectors targetted and the companies within those sectors. The AITC initiates contacts with foreign agencies and private firms, encourages foreign travel, and reciprocal visits. A strategic plan is devised and implemented for that sector. A network of support for the companies is structured which is comprised of international bankers, freight forwarders, lawyers, and state agencies.

The AITC leverages the financial resources of the SBDC program and the University by bringing in additional contracts with similar export objectives. Since fiscal year 84/85, the AITC has received approximately $150,000 to $180,000 each year from the SBDC program. During the same period the AITC has had a total operating budget of roughly $300,000 to $350,000 each year, the difference being made up by outside contracts with the Tennessee Valley Authority, private companies and the University of Alabama. Without this approach, the AITC would have been unable to operate at a sufficient level to enable it to respond to the needs of the small business community in Alabama. The following examples are given to highlight this strategic approach to program development.

Exporting Forest Products

The AITC developed a special program of action for the forestry sector of Alabama. The forest products sector contributes over $3 billion annually to the state's economy and employs over 67,000 people. With over 22 million acres in commercial forest land (over 2/3 of the state's land area), this sector is an important engine to the economy of Alabama. The growth potential of this sector is promising with Alabama possessing sufficient hard and softwood to supply domestic and international markets for the next ten years.

However, this sector did not have a significant export economy. Firms are small and scattered over a wide geographic area. These firms were not active exporters, had very little knowledge of where their lumber was being sold or to what end uses, and had no control over the marketing and sales process. In addition, companies were unfamiliar with the demand and product requirements of a foreign market.

Through a contract from the Tennessee Valley Authority over three years, beginning in FY 1984-1985, the AITC has succesfully, 1) established an export promotion model for the forest industry, 2) identified foreign markets for selected forest products, 3) trained Alabama lumber suppliers for export negotiations, 4) conducted two export trade missions, 5) hosted foreign buyers,

6) established permanent full-time position at the Alabama Forestry Commission to support the export of forest products, and 7) concluded approximately $4 million in export sales for lumber firms to the Far East and Europe.

Exporting Advanced Technology Products

The AITC targetted the high technology sector in Alabama in 1985, for new program development for the following reasons: 1) technology and innovation are one of the key factors for fueling economic growth, 2) Alabama lacks a clear program of action to stimulate technology and innovation from a policy and economic growth standpoint, 3) there are over 2,500 high tech oriented firms in Alabama which account for over 13 percent of its non-agricultural employment and contribute over $6.8 billion annually to the state's economy.

The AITC identified the following needs for the state's technology firms: 1) specialized and technical international market research in aerospace, defense, communications, medical, biotechnology, agriculture, and engineering, 2) location and screening of overseas business opportunities, 3) sales and marketing training, 4) network and support mechanism for innovation and commercialization and 5) strategies and training for licensing and joint ventures.

Technology Transfer Partnership Service

The AITC developed a new program, the Technology Transfer Partnership (TTP) service. The TTP service was based on the premise that Alabama firms, in order to be competitive, need to have access to new technology and new markets. Companies must be able to market new technologies and products abroad and they must incorporate new advanced technology into their production and manufacturing process.

This implies that Alabama firms must be open to licensing, joint ventures, and cross marketing agreements with foreign based partners in order to fully exploit foreign market opportunities. The TTP was developed to bridge the gap between new technology development and its commercialization or marketing, and to provide a mechanism to establish cooperative partnerships with foreign based companies.

The purpose of the TTP is to strategically link companies in Alabama with approriate overseas partners to increase transactions in export, licensing, and joint venture. Services include 1) partner search, 2) partner evaluation, 3) partner strategy, and 4) partner negotiation.

From November 1985 to August 1986, the AITC developed relationships with foreign based "intermediary" organizations in eight European countries that have access to a wide range of foreign businesses and research information to assist in the identification and evaluation of partners. This network of contacts reduces partner search time and facilitates the matchmaking process. A short description of the results of one program established with an "intermediary" organization in Denmark is provided to illustrate how the TTP service operates.

The Danish Initiative

The AITC, through its TTP Service, established a cooperative program model in November 1986 with the Danish Technical Information Service (DTO), designed to encourage and facilitate licensing and joint venture between Denmark and Alabama. The following preliminary activities were planned and undertaken during November 1986 in Copenhagen to introduce Danish industry and government officials to the DTO/AITC model: 1) mini seminar on technology transfer, 2) exhibition booth for AITC and DTO clients, 3) individual company meetings between 33 pre-selected Alabama companies and 54 Danish companies.

Based on the results of these activities, the AITC, in conjunction with DTO, was awarded a pilot project in January 1987, by the Danish National Agency of Technology to facilitate licensing and joint venture between 25 Alabama companies and 35 Danish firms over a six month period.

Forest Products and Denmark

DTO and AITC initially focused on the forest products sector and were awarded in February 1987, a Study Tour and Partnership Exchange for a group of 16 Danish furniture manufacturers interested in establishing U.S. joint ventures for production and distribution. Conducted during April 8-15, 1987, this tour: 1) investigated the use of Alabama wood products and opened sales channels in

Denmark, 2) assisted the Alabama furniture industry by exchanging product and production know-how, 3) evaluated potential partners, and 4) evaluated Alabama as a base for establishing U.S. manufacturing. This tour enabled the AITC to continue its cooperative effort with the Alabama Forestry Commission (AFC) to develop international opportunities for the forest product sector in Alabama. A forest products international trade specialist for this Montgomery-based state agency is located at the AITC in Tuscaloosa. A reciprocal visit by Alabama companies to Denmark is scheduled in August 87.

III POSITION OF AITC ON THE SMALL BUSINESS TRADE COMPETITIVENESS AND INNOVATION ACT HR 1854

The AITC strongly supports HR 1854 which establishes exporting and technology transfer as a national priority for small businesses. The AITC favors the coordination of a consistant program across different "delivery" groups at the federal, state, and local level through the U.S. Small Business Administration.

The following observations on HR 1854 are provided based on the AITC's experience in working as the export component for the Alabama Small Business Development Center Consortium. These issues may have already been considered and referred to other committees. Their consideration and evaluation is critical to the development of a solid, national export program for small business.

A. The legislation does not address alternative foreign market entry strategies for small business such as licensing or joint venture.

B. The legislation does not address the international dimension of technology transfer (the sale of copyrights, patents, or know-how in both directions across national borders). The technology transfer program could be strengthened by establishing linkages with foreign based universities and research institutes. Small businesses may need access to technology developed overseas to improve their competitiveness at home and abroad.

C. Implementation of the total program may be difficult due to personnel staffing considerations. It is difficult to find Americans with both the international business skills and foreign language proficiency needed to assist small businesses with practical export problems and initiatives.

D. It is difficult to address the problems small businesses encounter from internationalization solely with an export promotion program. American managers and employees lack a basic level of understanding of foreign geography, culture, business practices, and level of economic development, factors which hamper their ability to become active exporters. Special attention must be given to the "root" of this problem by developing parallel "international" education programs to be delivered to a broader population base through secondary, post-secondary, and higher education channels.

E. Caution should be taken in the implementation of the programs at the state and local level to avoid duplication of effort and waste of money within the states. Minimum levels of funding, the concentration and centralization of research and human resources may be necessary to insure a greater economic impact within a state.

Expanded Role of AITC Under HR 1954

The AITC will continue to develop programs and services designed to meet the needs of Alabama's small business companies and specific industry sectors. Through additional funding under the provisions of the Small Business Trade Competitiveness and Innovation Act, the AITC would strengthen its existing export and international technology transfer programs by hiring additional full-time personnel and expanding its research resources for specific industries in order to achieve more results.

The AITC has identified the following for new programs based on the needs of the Alabama business community and the demands of a globally competitive environment: 1) innovative language and cultural training for business and local leaders, 2) training for local business leaders and officials in support of small business exports, 3) assisting and supporting various state agencies to increase the level of international trade from Alabama, and 4) building a network of support from foreign based organizations that can assist in the process of assisting small business exporters.

The AITC will continue to leverage the resources of the SBDC program by attracting support from federal and state agencies with compatible objectives to increase export activity. By all estimations, the demand for services similar to those delivered by the AITC are far greater than the ability to respond effectively and timely. With increased financial support, the economic development impact of such programs can be enhanced.

Questions from Senator Sasser and answers by Mr. Davis

Question 1

The House Small Business Committee's trade bill calls on greater activity by Small Business Development Centers in promoting small business exports. Yet, Administration witnesses testified before our Subcommittee that SBDC's lack the expertise to carry out such an international trade program. How do you respond to such charges?

Answer

A. Working through a University-based system offers several advantages for the establishment of an international trade program.

1. Provides access to human and physical resources necessary for the support of international trade programs such as area studies, language and culture, law, science and engineering, research institutes, business, library holdings, federal repositories, and international expertise.
2. Enables operation at a grass roots level in the field.
3. Some universities have a strong track record and commitment to economic and industrial development and partnerships with industry necessary for the establishment of trade programs.
4. Universities have a non-government image which is important in dealing with the private sector.
5. Universities have flexibility in forging partnerships with necessary industry groups - chambers, banks, associations, private firms - for the improvement of international trade performance.
6. Universities link an international trade program to a strong educational role necessary for training both the existing workforce and the future workforce of America in the trade area.
7. Since international trade assistance is a labor intensive process, Universities, with their access to graduate student expertise, can accomplish this task at a lower cost.
8. Universities can provide the in-depth, one-on-one assistance needed to help firms export and fill a gap in programs not currently available through the federal government at SBA, US DOC or at the state level.

B. However, the SBA's management of the current SBDC system has the following shortcomings which need to be changed for the establishment of an international trade program.

1. There are burdensome SBA administrative regulations that are not realistic for the conduct of international trade assistance.

2. "Deliverables" under the current SBDC system may not be appropriate for international work by the SBDC. For example the AITC is required to work with 300 companies and conduct 8 seminars per year. At a level of SBDC funding of $181,000 and against the fact that it takes substantial time and effort to help companies export, these targets are unrealistic. Deliverables need to be negotiated with SBA based on circumstances unique to each state.

3. Existing programs and funding are not tied or linked to results or economic impact but rather to the number of firms counseled, hours worked per dollar, and number of seminar attendees.

C. The SBDC network can be effective in the establishment of international trade programs if the existing system and regulations are improved specifically for international trade work and if Trade Centers are located at institutions that are capable of delivery of the program.

Question 2

If the Committee moves forward with an export assistance program involving SBDC's which is similar to the language in H.R. 1854, would you expect to see such export assistance programs in each state which has an SBDC? Would it be wise for Congress to mandate that each state with an SBDC establish such a program?

Answer

A. Every state which has an SBDC may not be an appropriate candidate for the establishment of an international trade programs for the following reasons.

1. Some states already have strong international trade programs either federal or state that would not need to be replicated.

2. In some states, University institutions may lack the necessary resources for a trade program.

3. Some states may not have a diverse industrial or product base to justify an international trade program.

Question 3

Your testimony indicates that the Committee may need to set up a system of checks to ensure full implementation of a small business export assistance program making use of SBDC's. What specific safeguards do you recommend we consider to ensure that any program we might establish is carried out?

Answer

A. The Alabama International Trade Center recommends the establishment and implementation of a pre-qualification procedure specifically designed for international trade work to screen grant applicants in order to ensure that quality programs are established that meet the special needs of small businesses in the states and the challenges that face our nation.

The purpose of the pre-qualification procedure would be to 1) establish the need for an international trade program, 2) demonstrate an understanding by the applicant of the state's export opportunities and problems and programs that could be implemented, and 3) demonstrate cooperation and consultation with appropriate state, federal and private groups regarding the proposed establishment of a new international trade program.

B. The following criteria should be addressed in the application process.

1. Access to expertise in area studies, science and engineering, foreign languages and culture, law, research institutes, business, and international expertise.

2. Coordination with existing federal, state, and local trade agencies for support and to avoid duplication in effort and services.

3. Assessment of industries and companies with export potential; determination of company needs.

4. Development of programs that can increase exports and have economic impact.

5. Establishment of private sector support for the proposed program.

6. Assist in the development of a model for export promotion.

C. The AITC recommends the establishment and implementation of clear goals and objectives specifically for the international trade program. If the driving force behind this legislation is to increase our nation's small business exports then programs should be implemented and their effectiveness measured and evaluated in those terms.

The programs of the AITC can be described by the following categories. Each category can be distinctively measured and evaluated as contributing towards an increase in export activity. This method is not currently required by our granting agency.

1. Producer or company development to increase a company's internal ability to export through one-on-one counseling and specific training by domestic and foreign based specialists. This program is for firms that currently cannot export. By the end of this process, firms should be able to export or have identified their obstacles.

2. Foreign market development to identify sales opportunities and contacts for companies. This provides companies with the external information needed to export.

3. Sales development to promote and increase export sales for companies. This program is for firms that can export and is measured in terms of actual export sales concluded.

Question 4

The Committee is concerned about the funding aspect of an export assistance program centered on SBDC's. Should the funding for such a program differ from the current funding mechanism for activities of SBDC's? If so, should this be a permanent change? What levels of funding do you think would be appropriate for establishing a small business export assistance program that primarily utilized SBDC's?

Answer

A. The AITC recommends that the funding for the export assistance program be maintained separately from the funding of the general SBDC activities and that an adequate level of funding be allocated to support the international trade program.

Separation of the funding for export assistance would help to ensure that 1) the allocation is not diverted to support non-international trade programs or for the management and costs of non-international trade programs, 2) accountability and record of cost can be collected for accurate development and maintenance of budgets, and 3) accurate information can be developed on the impact of such programs in terms of the amount of funds spent.

B. The new legislation should clearly define the parameters and responsibilities for the international trade program and its funding.

C. Helping small firms export takes a commitment for substantial research resources, staff expertise, and time. Appropriate levels of funding depend on the level of development of existing trade programs within the state, resources of the host institution, and the types of services small companies and industries within that state require in order to export.

Consideration should be given to establish adequate minimum levels of funding for 1) personnel - 3 or more full time, with domestic and foreign business experience, cultural language sensitivity, strategic planning skills, understanding of foreign trade mechanics, and oral and written communication skills, 2) research resources - secondary and primary from both U.S. and foreign sources, and 3) travel to establish linkages with foreign counterpart organizations, for market development and producer development activities, and to encourage reciprocal visits by foreign buyers.

Question 5

If the Committee moves forward with a small business export assistance program centered on SBDC's, what activities should we emphasize? How specific should such legislation be in terms of establishing definite programs for SBDC's?

Answer

The legislation should be specific in establishing goals and objectives in terms of increasing export activity. Specific program activities should not be mandated by the legislation. The legislation should be flexible to allow each state program to develop services designed to meet the individual needs and situations that are unique to every state. A range of preferred activites could be enumerated in the legislation which could include programs for both international trade and technology transfer.

A. Activities to Increase Exports

1. sales promotion and development
2. encourage reciprocal visits
3. practical training to teach and show companies how to export
4. strategic planning
5. research to identify sales opportunities and contacts
6. referral source to support networks - bankers, lawyers, freight forwarders, federal, state programs
7. referral service to foreign counterpart organizations
8. training on foreign language and culture
9. programs emphasizing change and adaptation to foreign tastes, needs and demands
10. identification of export problems

B. Activities to Increase International Technology Transfer

1. identification and evaluation of new technology
2. access to foreign technology and equipment
3. encourage overseas trips to see the level of technological development within industry sector
4. development of relationships and networks for commercialization of new technology with foreign and domestic public and private organizations
5. training for joint ventures and licensing
6. promotion of the benefits of international technology transfer
7. development of SBDC clearinghouse on international trade and technology

Senator **Harkin**. Thank you very much. Let's move ahead. This is our last panel. We have an Appropriations Committee meeting that is going on now. That is why we have all the movement around here.

We have Dr. Mitchel Wallerstein, associate executive director, Office of International Affairs for the National Academy of Sciences; and Mr. R. Wayne Sayer of Sayer and Associates, Washington, DC.

Welcome to the Committee. Dr. Wallerstein, why don't you go ahead and proceed. As I said at the beginning, your statements will be made a part of the record.

STATEMENT OF DR. MITCHEL B. WALLERSTEIN, ASSOCIATE EXECUTIVE DIRECTOR, OFFICE OF INTERNATIONAL AFFAIRS, NATIONAL ACADEMY OF SCIENCES, WASHINGTON, DC

Dr. **Wallerstein**. Thank you, Mr. Chairman. I am privileged to have the opportunity to appear before you this afternoon. We have submitted a statement for the record. We have also sent up a copy of the executive summary for the recently released National Academy of Sciences report which contains all of the findings and recommendations that the panel reached.

I am here, though, to report about those findings and those aspects that pertain specifically to small businesses. The study concerned primarily the fact that the Soviets engage in a systematic and centrally directed effort to acquire and apply western technology to make up for deficiencies in their system.

The conclusion that the Academy panel reached from examining the current situation is that the export controls are necessary to impede the transfer from the West to the East of militarily important dual use technologies. These are technologies which have both military and commercial application. The controls cannot be static and they cannot be unilateral. To be effective the control system must be dynamic and it must be fully multi-national.

The U.S. Government has made major efforts during the last six years to invigorate and to strengthen the U.S. controls and to revitalize the multi-lateral process. In large measure, this effort has focused on reducing diversion, that is, addressing the circumstances in which U.S. exports are diverted from free world trade channels to reach the Soviet Union.

The present control system has a number of faults. Some of these problems are actually the result of the diligent efforts over the last 6 years which we believe have, in some cases, overcorrected the shortcomings that were identified when the Administration entered office.

The current system of controls does impede West-West trade, and it selectively impedes U.S. trade with our Western trading partners. We estimate that in 1985 roughly 40 percent of all U.S. exports of manufactured goods, about $62 billion, were subject to government review and approval for national security purposes.

Because the United States is more stringent in applying controls than other allies, and because we control more items than other allies, the U.S. companies do suffer a competitive disadvantage. The dollar cost to U.S. business is significant, and we have made an attempt to estimate that cost. Our first order estimate is that in 1985 the National Security Export Control Regime cost the U.S. economy approximately $9 billion with attendant loss of approximately 200,000 jobs.

Perhaps of more direct interest to this committee are the data that the panel developed on the effect of controls on small- to medium-size companies. From our analysis of the Commerce Department's licensing files, and from surveys we conducted directly with firms, we were able to determine that the U.S. national security controls do significantly disadvantage small companies.

We estimated that, in 1985 validated license applications from these companies for free world destinations took on average about 25 percent longer. The likelihood of a license denial was approximately 2.5 times greater. The probability of a license being returned without action, what the Commerce Department calls RWA, was about four times greater, and the probability of the Department requiring modification of the license application was about three times greater.

It is important to emphasize that these apparent negative effects are not the result of an explicit policy bias on the part of the Department of Commerce. Rather, they derive from the fact that the Export Administration Regulations, as they are currently written, are complex and arcane, comprising more than 600 pages of highly legalistic jargon.

Most small- to medium-size firms simply cannot afford to maintain either sufficient full-time staff with adequate knowledge of the regulations, or Washington representation to advise them, or to work the system for them. As a result, errors are made both in the application process, and in the basic determination of specific items subject to control. These factors appear to account, in large measure, for the higher rates of denial, the conditional use and so forth.

Another significant but less easily proved result is that the controls are actively discouraging small- to medium-size firms from even attempting to export. This trend, which is similar in some respects to the discouraged worker problem in the U.S. economy as a whole, is very difficult to demonstrate empirically, but we were able to derive enough anecdotal evidence as part of our research to lend credence to this assertion.

The controls as they are presently administered also become a major irritant to our allies, and they tend to inhibit cooperation by business with legitimate control concerns.

There is also now evidence that the result of the controls is actively discouraging cooperation by Western countries, and also encouraging active efforts to move away from the controls, that is to find ways to design around U.S. products, or to find alternative sources. This trend has been referred to as "de-Americanization," and it is a very dangerous trend which we have identified.

A number of the panel's findings and recommendations relate specifically to the concern of small business, and I would like to conclude by identifying five such concerns for you.

First, the top priority is to simplify the Export Administration Regulations. The regulations can and should be written in an accessible style, free of unnecessary legal jargon, and they should be reduced in overall size.

Second, in a similar vein, the panel recommended that both the U.S. and international control lists should be made uniform and should be substantially streamlined, removing what the panel called "technological commodities," things that are manufactured and shipped so widely that they are just simply beyond control at this point.

Third, the panel urged that there needs to be a clarification of the process of determining foreign availability of products and decontrolling those things which are available abroad. At present the Department of Defense maintains a de facto veto authority over the Commerce Department's foreign availability findings. Out of more than 20 such findings in 4 years, the Defense Department has agreed to only three.

Fourth, the panel recommended that additional steps can and should be taken within the Department of Commerce to make the licensing process faster and more efficient. One such action in this regard would be to establish an office within Commerce that can provide specific substantive assistance to smaller companies that do not possess adequate in-house expertise, or that cannot afford to retain Washington representation. At present the Commerce Department's office of exporter services does not advise a company on the prospects for approval of a license, or on how to develop an application more effectively.

Finally, there is more that the U.S. Government could do to assist small U.S. and foreign firms operating overseas in finding their way through the complex U.S. licensing process. The panel found that overworked U.S. embassy staffs do not have sufficient up-to-date information about changes in the export control regulations. One possible solution would be for the Commerce Department to open an export services advisory office in Europe and one in Asia connected by computer to Washington. This would offer a convenient central location within each region for firms to obtain reliable information on controlled items and to resolve difficulties in the license preparation or approval process.

This concludes my remarks and I will be happy to respond to written questions.

[The prepared statement of Dr. Wallerstein follows:]

Testimony of

Dr. Mitchel B. Wallerstein

Project Director
Panel on the Impact of National Security Controls
on International Technology Transfer
Committee on Science, Engineering and Public Policy
of the National Academy of Sciences,
National Academy of Engineering, and
Institute of Medicine

Before the
Committee on Small Business
United States Senate

April 30, 1987

I am honored to have the opportunity to appear before you today to present the results of the report released recently by a distinguished blue ribbon panel, sponsored by the National Academies of Sciences and Engineering and the Institute of Medicine, entitled: Balancing the National Interest: U.S. National Security Export Controls and Global Economic Competition. This report concerns so-called "dual use" technology--i.e., technology with both commercial and military applications--that has become increasingly important to Western military security. The obvious examples are electronics and computers. I shall also focus my remarks on the panel's findings and recommendations that pertain specifically to the concerns of small business.

In the West, and especially in the United States, the vigor of university research and the research which is driven by commercial interests in high technology are a great advantage. The Soviets are deficient in many technical areas because of a very weak commercial sector. The Soviets attempt to offset this weakness in a number of ways. But of particular interest to the panel was the fact that they engage in a systematic and centrally directed effort to acquire and apply Western technology.

The panel did not believe that this is a satisfactory solution for the Soviets. Overall the East-West technological gap is not decreasing in the areas that benefit from dual use technologies. The panel observed, as did the Bucy panel ten years ago, that reverse engineering--that is, learning to manufacture a product such as a memory chip from the acquisition of a single copy--is not very useful. Such a copycat approach, which the Soviets use in a number of areas, seems to ensure mediocrity and delay.

But it is also clear that the Soviets are certainly strong in some fields, and that for uniquely military technology where they apply substantial resources, they are quite successful. In particular, that success is manifested by the fact that the fielded equipment of Warsaw Pact forces is modern and comparable to that of fielded NATO equipment, even though the high-technology end of NATO weapon systems is superior to the most advanced Soviet equipment.

Changing Global Economic and Technological Circumstances

The United States is no longer as dominant as it once was in many dual use technologies. There are Western industrialized countries--Japan, for example--whose product and manufacturing technology are equal to our own or, in some cases, lead the world. In addition, dual use technology is diffusing very rapidly. The newly industrializing countries (NICs) are a case in point; some of these countries--e.g., South Korea and Taiwan--now have the capability to manufacture dual use items which, in some cases, exceed Soviet technical capabilities. So, although the NICs are still well behind at present (because they lack an indigenous R&D base), it is wise to remember that, in selected areas, their manufacturing capability is now or shortly will be at a point where they are alternative sources of the technology that the Soviets are seeking.

The conclusion that the Academy panel reached from examining the current situation is that controls are necessary to impede the transfer from the West to the East of militarily important dual use technologies. But these controls cannot be static or unilateral. To be effective, the control system must be dynamic and fully multinational.

Problems with Current U.S. Export Controls

I would like now to shift to a discussion of the controls themselves: the U.S. government has made a major effort in the last 6 years to invigorate and strengthen the controls, and to revitalize the CoCom process. In large measure, this effort has focused on reducing diversion--that is, addressing the circumstances in which U.S. exports are diverted from Free World trade channels to reach the Soviet Union. Our primary focus in the report is on the effectiveness of the controls in impeding the unwanted transfer of high technology, dual use items to the Soviet Union and its allies, and whether such controls have unintended effects on West-West trade and relations with our friends and allies in the Free World.

The present control system has a number of faults. Some of these problems are actually the result of the diligent efforts over the last 6 years which we believe have, in some cases, overcorrected the shortcomings that were identified when this administration entered office. The current system of controls does impede West-West trade, and it selectively impedes U.S. trade with our Western trading partners.

We estimate that in 1985 roughly 40 percent of all U.S. exports of manufactures--about $62 billion worth--were subject to government review and approval for national security purposes. Because the United States is more stringent in applying controls than are the CoCom allies and because we control more items the U.S. exporter is at a competitive disadvantage. The dollar cost to U.S. business is significant, and we have made an attempt through a commissioned study to estimate the magnitude of the cost caused by the differences in controls from our allies. This analysis yielded a first order estimate of the direct economic cost to the U.S. economy in 1985 associated with national security export controls of approximately $9 billion, with an attendant loss of about 200,000 jobs annually.

Perhaps of most direct interest to this committee are the data the panel developed on the effect of the controls on small-to-medium size companies. From our analysis of the Commerce Department's licensing files and from a series of surveys we conducted directly with U.S. firms through a number of cooperating trade associations, we were able to determine that the U.S. national security export controls do significantly disadvantage small business. We estimate that, in 1985, validated license applications from these companies for Free World destinations took on average about 25 percent longer than for larger companies. The likelihood of license denial was approximately 2.5 times greater; the probability of a license being returned without action (RWA) was about 4 times greater; and the probability of the Commerce Department requiring modification of the license application or placing conditions on use was almost 3 times greater.

It is important to emphasize that these apparent negative effects are not the result of any explicit policy bias on the part of the Department of Commerce. Rather, they derive from the fact that the Export Administration Regulations as they are currently written are complex and arcane, comprising more than 600 pages of highly legalistic jargon. Most small-to-medium size firms simply cannot afford to maintain either sufficient full-time staff with adequate working knowledge of the regulations or expensive Washington representation to advise them and/or to work the system for them. As a result, errors are made both in the application process and in the basic determination of specific items subject to export control. These factors would appear to account, in large measure, for the higher rates of denial, conditional use, and RWA for small and medium size companies that we identified in the study.

Another significant but less easily proved result of national security export controls is that small-to-medium size firms are becoming discouraged by the complexity of the system and are simply deciding to give up the effort to develop export markets. This trend--similar in some respects to that of discouraged workers in the U.S. domestic labor force--is very difficult to demonstrate empirically, but we were able to derive enough anecdotal evidence to lend substantial credence to the assertion.

The controls as they are presently implemented have also become a major irritant to our allies. And they tend to inhibit business cooperation that is required for their effective implementation and enforcement. Moreover, there is now evidence that they are discouraging the use by other Western countries of U.S.-manufactured components. In some cases, there is a conscious effort underway to design around or find alternatives to the use of U.S. parts, components, and equipment. This trend is often referred to as "de-Americanization."

Delegations of the panel made two major overseas visits to countries in Europe and Asia which are part of the CoCom agreement, to newly industrializing countries, and to advanced neutral countries. In all of these countries, there was strong support for the intent of U.S. policy. That is, we did not encounter any fundamental disagreement with the idea that the United States should take the lead in impeding the flow of militarily significant dual use technology to the Soviet Union. But, with a fair degree of unanimity, our friends and allies regard U.S. policy, as it is currently administered, as being excessive, not very effective, and intrusive in their affairs. The latter view is a function of the extraterritorial aspects of U.S. reexport control requirements.

Ultimately, the panel determined that the policy process for national security export controls within the executive branch is in disarray. The Department of Defense has aggressively taken the initiative and exercises a de facto veto over proposals of the Department of Commerce, which is actually assigned the principal authority by law. The Department of Commerce, on the other hand, has been relatively weak and ineffective. The Department of State has allowed the U.S. government to appear to speak with several voices. And the so-called overarching mechanisms--namely, the National Security Council and the mechanisms that exist to develop policy and resolve interagency conflicts--have not exercised leadership.

Major Findings and Recommendations

The panel's findings and recommendations are really quite straightforward: controls are needed and the system must be multinational. The United States can and should lead but this country can control by itself only a few items, e.g., supercomputers. But everything else must be controlled through a "community of common controls on dual use technology" that involves at least the so-called "first tier" countries of CoCom. But, better, such common controls should involve other members of CoCom as well and as many other advanced countries as one can bring aboard.

This leads us to recommend that the United States should strive to control only CoCom-proscribed items. To do this, it will be necessary to reduce the number of items that the United States restricts, in order to get focus and agreement on the most critical items that need protection. The so-called "third country" issue--i.e., non-Cocom, Free World countries--has to be worked very hard. Our government has been trying to do this with some progress--but with incomplete scope of agreement. Clearly, agreements reached with third countries that restrict only U.S. origin technology disadvantage U.S. companies without sufficient, offsetting national security benefits. As the United States and other countries strive to create a community of common controls, it also should be possible to abandon the extraterritorial features of current U.S. policy.

The panel emphasizes in the report that the United States must continue to encourage vigorous technology advance in this country, and indeed among our Western allies as well. Economic vitality generally, and economic strength in the high-technology commercial sector particularly, is important for national security.

In making its specific recommendations, the panel also has addressed a number of other factors, including the need to put technical judgment back into the process. It has observed that the departments of government have tended to assign responsibility for export controls to the agencies concerned only with security policy. In so doing, they have tended to diminish the weight of technical and economic considerations, and certainly the special problems of small business are among those factors given insufficient consideration. This imbalance needs to be corrected.

The panel recommends that the Department of Commerce should be put back in the leadership role of export control matters, and that to do so, they must strengthen their human and technical capabilities and must get a better hold on the issues. It further recommends that the government--through the Department of Commerce but also at higher levels associated with the National Security Council--should advocate trade as a part of a broadened conception of U.S. national security. There really is not an adequate mechanism for trade advocacy in addressing many of these issues within the government. Finally, in the same vein, the panel emphasizes that the administration needs to listen to business--both large and small companies. It has some mechanisms for doing this, but they have not been used effectively.

Specific Recommendations on Small Business

A number of the panel's findings and recommendations relate specifically to the concerns of small business. Five points deserve further mention:

1. Clearly, the top priority is to simplify the Export Administration Regulations. The regulations can and should be written in an accessible style, free of unnecessary legal jargon, and should be reduced in overall size. This would help companies to understand and follow the rules, thereby avoiding unnecessary RWAs and conditional approvals.

2. In a similar vein, the panel recommended that both the U.S. and International control lists should be made uniform and substantially streamlined, removing what the panel called "technological commodities" (i.e., items that are manufactured, shipped, stored, and exchanged so widely that they are now beyond practical control). Such streamlining would aid small companies by removing the obligation to obtain validated licenses for lower level or obsolescent technologies.

3. A third action strongly urged by the panel was a clarification of the process by which the foreign

availability of an item is determined and subsequent decontrol action taken. At present, the Department of Defense exercises a de facto veto authority over the Commerce Department's foreign availability findings (out of more than 20 such findings in four years there have been only 3 final decontrol actions agreed to by Defense). Resolution of this problem, either by executive branch action or legislative fiat, would aid small businesses which find it extremely difficult to compete in international markets when they must obtain validated export licenses for products that, in some cases, are already available in uncontrolled locations in substantial quantity and quality.

4. The panel recommended that additional steps can be taken within the Department of Commerce to make the licensing process faster and more efficient. One such action, in this regard, would be to establish an office within Commerce that can provide specific, substantive assistance (e.g., on the preparation of license applications, etc.) to smaller companies that do not possess adequate in-house expertise or that cannot afford to retain Washington representation. At present, the Commerce Department's Office of Exporter Services does not advise a company on the prospects for approval of a

specific license or on how to develop an application more effectively. It can only inform companies as to where an application is in the review process.

5. There is more that the U.S. government could do to assist small U.S. and foreign firms operating overseas in finding their way through the U.S. licensing process. The panel found that overworked U.S. embassy staffs often do not have sufficient up-to-date information about changes in the export control regulations. One possible solution would be for the Commerce Department to open an export services advisory office in Europe and Asia, connected by computer to Washington. This would offer a convenient, central location within each region for firms to obtain reliable, current information on controlled items and to resolve difficulties in license preparation or approval.

This administration has accomplished needed improvements in the administration of national security exports, by both the United States and its allies. But the performance of the U.S. government on this matter has not been fully satisfactory--and will be increasingly less so because of prevailing trends in international trade, and technology development and diffusion. Although most of the necessary mechanisms appear to be in place, the U.S. policy process for national security export controls continues to lack proper direction and affirmative leadership at the highest level to balance both military security and economic vitality. In the absence of appropriate corrective measures, the current system of export controls will exact ever higher costs--on both Western economic vitality and innovative capacity and on the military security of the United States and its allies.

Executive Summary

BALANCING THE NATIONAL INTEREST

U.S. National Security Export Controls and Global Economic Competition

Panel on the Impact of National Security Controls
on International Technology Transfer

Committee on Science, Engineering, and Public Policy

National Academy of Sciences
National Academy of Engineering
Institute of Medicine

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Preface

The United States in cooperation with its allies has imposed controls since 1949 on exports to the Soviet bloc of commercial goods and information that would be of significant value to Warsaw Pact military systems. Since the late 1970s, there has been significantly increased concern in the United States about Soviet success in acquiring and applying this commercial Western technology, a concern that was translated into a vigorous effort to improve the effectiveness of national security export controls. The Department of Defense spearheaded this initiative, which has resulted in substantial strengthening of controls on dual use technology (i.e., items with both commercial and military application), primarily under the authority of the Export Administration Act of 1979, as amended. These stricter controls, however, have caused broad concern about unintended effects that may dampen the vigor of U.S. research and technology development and unnecessarily impede trade in high-technology goods.

In 1982 a panel of the National Academy complex (now known as the Corson panel after its chairman Dale Corson) examined the effect of national security export controls on the communication of basic scientific research. The results of that study led to an executive branch policy intended to minimize restraints on the vital free flow of scientific results and research findings. During the ensuing period, representatives of industry and research institutions in the United States expressed misgivings about the effect of export controls on the U.S. international competitive position, and this national controversy also required an objective examination. As a result the leadership of the National Academy complex decided in 1984 to organize a second panel to examine the effect of export controls on commercial trade in high-technology goods and information and on the vigor of U.S. high-technology industry.

The new panel recognized from the outset that Western military security depends in part on the technology advantages of the West as compared to the Soviet Union and that some restrictions on the flow of technology of military importance are indeed necessary. Furthermore, the panel was aware of the vital importance of maintaining the West's technological advantage through continued technological progress. It also took note of the fact that a 1976 study of the Defense Science Board (known as the Bucy report) had provided much of the theoretical basis from which to examine the current situation.

The panel found it appropriate to narrow and focus its efforts. Although controls for foreign policy purposes, controls on transfer of nuclear technology, and controls on arms transfer are all part of the total U.S. export control policy, in accordance with our charge we have focused on national security export controls (as specified by the Export Administration Act of 1979, as amended) imposed on dual use technology. Moreover, although certain countries other than the members of the Warsaw Pact are affected by U.S. national security export controls, we have focused primarily on issues relating to the Soviet Union and its Eastern bloc allies due to their central importance to the problem. We also have given particular attention to the role of friendly and neutral Free World nations that are not members of CoCom (the Coordinating Committee on Multilateral Export Controls), countries that may now or in the future be sources of indigenous technology and potential channels of West-East technology transfer.

The panel shares the concerns of many regarding the health of U.S. high-technology industries and the effect on national security of declining U.S. leadership in various sectors. We have, for example, taken note of other recent studies that address the loss of manufacturing capability in the semiconductor industry and the problems associated with defense procurement. Our focus in this study—and the overall effect of export controls—does not minimize the importance of other measures needed to retain and improve the vitality of high technology in the United States and its contribution to U.S. military security.

Perhaps not surprisingly the panel found the central problem of this study to be extraordinarily complex and initially difficult to grasp in its totality. Moreover, we determined that reliable quantitative data regarding the effectiveness of controls—and the impact of controls on economic development and trade—continue to be very difficult to obtain. Nevertheless, at the conclusion of its efforts the panel was convinced that it had reviewed and considered sufficient information to justify its findings and recommendations. It was unanimous in the adoption of these views.

It is clear that, for this complex problem, there are valid competing interests to be weighed in considering the course of action that will be most effective in enhancing U.S. national security. The panel hopes that this report serves to identify and explain these important issues and that our findings and recommendations will be useful to those who bear the responsibility for formulating and implementing wise policy.

The panel is grateful for the assistance provided by the liaison representatives of the various federal agencies and by the hundreds of individuals and private organizations, both in the United States and abroad, who cooperated in providing information for this study (see Appendix G). We also wish to thank the professional staff, directed by Mitchel Wallerstein, which so ably organized the panel's briefings and foreign fact-finding missions and laboriously wrote and rewrote the many preliminary drafts of this report. Finally, I personally wish to thank the members of the panel for their dedicated service in this lengthy and sometimes contentious effort.

LEW ALLEN, JR.
Chairman

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BALANCING THE NATIONAL INTEREST

Executive Summary

ABSTRACT

In this study the panel was charged to examine the current system of U.S. and multilateral national security export controls and to seek strategies to regulate international technology transfer in such a manner as to achieve a desirable balance among the national objectives of military security, economic vitality, and scientific and technological advance. Three general principles underlie this analysis—namely, that it should be the policy of the United States (1) to promote the economic vitality of Free World countries, (2) to maintain and invigorate the domestic technological base, and (3) to cooperate with its allies to impede the Soviet Union and other Warsaw Pact countries in their efforts to acquire Western technology that can be used directly or indirectly to enhance their military capability.

The panel finds that national security export controls, when developed and implemented on a multilateral basis, are an appropriate policy response to two facts. One is that dual use technology—that is, technology that has both commercial and military applications—has become increasingly important to Western military security. The other is that the Soviet Union and its Warsaw Pact allies continue to pursue aggressive technology acquisition in the West. The panel further finds that efforts by the United States since the late 1970s to enhance the effectiveness of national security export controls were necessary in view of both intelligence on the nature and extent of Warsaw Pact

technology acquisitions and the continued diffusion of technological capability outside the United States. Nevertheless, the panel believes that U.S. control policies and procedures are in danger now of overcorrecting in that they fail to promote both military security and economic vitality, two objectives set forth in the statutes authorizing national security export controls. The panel also finds that, although appropriate statutory authority appears to exist, the U.S. policy process for national security export controls lacks proper direction and affirmative leadership at the highest level of government. The result is a complex and confusing control system that unnecessarily impedes U.S. high-technology exports to other countries of the Free World and directly affects relations with the CoCom allies.

Accordingly, the panel recommends that the United States exercise stronger leadership in building a multilateral community of common controls for dual use technologies among cooperating countries, which will involve further strengthening of the CoCom mechanism, eliminating certain controls on trade among CoCom countries, and developing effective control arrangements with other technologically advanced nations. In the domestic context the panel recommends that executive branch policy decisions on national security export controls accord greater importance than they currently do to maintaining U.S. technological strength and the economic vigor and unity of the Western alliance.

INTRODUCTION

The vigor of science and technology in the Western* democracies and the greater economic vitality of these nations in comparison to the Soviet bloc are sources of strength for the West in its continuing effort to maintain its military security. The Soviet Union lacks these advantages; it seeks to compensate for them by directing a substantial portion of its gross national product to the development and production of military equipment and by making aggressive attempts to acquire and apply Western technology to its military programs. Although the prime targets of the Soviet acquisition program are military hardware and technology related directly to military systems, dual use products and technology† available for sale in international markets also constitute major targets. The importance of dual use technology to Western economic vitality poses a policy dilemma for the West in turn: The open communication and free markets that are fundamental to the Western advantage in technology also facilitate the Soviet acquisition effort. Given what is known about the scope and extent of these Soviet activities, the West must pursue a dual strategy of continuing to maintain its technological leadership over potential adversaries while also denying—or at least impeding—their access to militarily significant Western technology.

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* As used throughout this report, *Western* or *West* includes Japan.

†Items that have both commercial and military applications (e.g., microelectronic components or computers of certain performance parameters).

This study had a twofold objective: (1) to examine the current system of laws, regulations, international agreements, and organizations—defined collectively as the national security export control regime*—that control the international transfer of technology through industrial channels; and (2) where appropriate, to recommend new approaches to achieve the interrelated national policy objectives of military security, scientific and technological advance, and economic vitality.

To achieve this objective the panel and its professional staff undertook a broad agenda of research and briefings.

- Pertinent public literature was analyzed as well as restricted documents from the various federal agencies involved in export control policy formulation—e.g., the Departments of Defense, Commerce, State, Treasury (U.S. Customs Service), and Justice.
- Representatives of these agencies briefed the panel, as did the Intelligence Community in classified session.
- The panel also heard the views of industry (including a broad range of sectors and firm sizes) and held a series of discussions with individuals well-versed in aspects of the national security export control regime.
- Delegations of the panel traveled to six European countries (Austria, Belgium, France, Great Britain, Sweden, and West Germany) and five Asian countries (Japan, Hong Kong, Malaysia, Singapore, and South Korea) for frank and confidential meetings with government officials, industry leaders, and other informed observers on export control matters.
- The panel commissioned a series of research reports, prepared both by outside consultants and by the panel's professional staff. Some of these studies developed and analyzed new primary data; others reexamined existing problems from new perspectives.

From these efforts has come a set of general principles and specific prescriptions for developing a more balanced and effective national security export control regime. The panel's findings and recommendations are set forth in the concluding sections of this summary. The three general principles that underlie the panel's analysis propose that *it should be the policy of the United States*

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*The panel was not charged to consider other applications of export controls including foreign policy and short supply constraints. Thus, although foreign policy controls may occasionally become intertwined or confused with national security controls, they are examined here only to the extent that they impinge on the effective functioning of the national security export control regime.

- to promote the economic vitality of Free World countries,
- to maintain and invigorate the domestic technological base, and
- to cooperate with its allies to impede the Soviet Union and other Warsaw Pact countries in their efforts to acquire Western technology that can be used directly or indirectly to enhance their military capability.

As a general policy, the United States should strive to achieve clarity, simplicity, and consistency in its national security export control procedures, as well as in the multilateral CoCom* export control structure, and broader consensus on the need for national security export controls among the Free World nations that use and produce dual use technology. To achieve these ends the United States should develop policies and procedures that emphasize efficiency and effectiveness rather than total comprehensiveness.

THE TECHNOLOGY TRANSFER PROBLEM

Intelligence information reviewed by the panel—including some at high levels of classification—indicates that the Soviet technology acquisition effort is massive, well financed, and frequently effective. Militarily significant Western technology has flowed to Warsaw Pact countries in recent years through three primary channels:

- *espionage*—the theft of classified information or items of relevance to military systems;
- *diversion*—shipment of militarily significant dual use products and technology to unapproved end users, either directly through the export of controlled products without a license (i.e., smuggling), or indirectly through transshipment using a complex chain of increasingly untraceable reexports (i.e., legal transshipment of products or components by firms operating in countries that do not impose controls); and
- *legal sales*—direct trade with the Soviet bloc, usually after receipt of a license. Such trade also may include some reexports.

As in other areas of intelligence, data on Soviet acquisition of militarily sensitive technology are incomplete and fragmentary and often become available relatively late in the development of national security export control policy. Nevertheless, available evidence—including the so-called "Farewell" papers, which are actual Soviet documents obtained by French intelligence services in 1981 detailing the plans, organization, and financing for technology acquisition efforts in the West—indicates that, by the Soviets' own estimates, approximately 70 percent of the items they target and eventually acquire in the West are subject to some form of national security export control. There is also growing concern in the Intelligence Community about the extent to which the Soviet Union and other Warsaw Pact countries have been or may be able to obtain controlled technology in Free World countries that do not cooperate in national security export controls. This concern applies both to the industrialized neutral countries of Europe and to some of the more advanced newly industrializing countries (such as India, Singapore, and Brazil).

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*CoCom, or the Coordinating Committee on Multilateral Export Controls, is an informal, nontreaty organization composed of Japan and all the member nations of the North Atlantic Treaty Organization (NATO) except Iceland.

It is only on rare occasions—for instance, when isolated examples of specific Western components, or copies of them, appear in Soviet military equipment—that the Intelligence Community can declare without reservation that the application of Western technology has contributed substantially to Soviet military developments. As a result, assessing the impacts of technology acquired by the Soviets is subject to considerable uncertainty. In general, it appears that the loss of a few items does not raise significant risks. Although the Soviets may attempt to reverse-engineer a technology (i.e., use an item obtained in the West as a basis for producing the technology themselves for their military systems), the panel has come to believe that this process is generally unproductive for many types of items (for example, high-density semiconductor devices).

Nevertheless, certain key items of process control or manufacturing hardware (known as keystone equipment) *can* provide the Soviets with substantial leverage—even if only a few are obtained—because these items facilitate the production of quantities of other hardware. Consequently, a prevalent judgment in the United States is that the emphasis of national security export control policy properly should be on constraining the flow of manufacturing equipment (specifically, some types of turnkey plants and know-how related to that equipment) rather than on the end products of the manufacturing process.

Although there are some cases in which different conclusions can be drawn, on the basis of available information the panel has determined that for most types of dual use technology the Soviet Union is approximately 5 to 10 years behind the West and does not appear to be closing the gap. The situation is different for military technology. Although the West remains generally ahead in the most advanced systems, the Soviets' great emphasis (relative to that of the United States) on the development and production of military hardware results in fielded equipment that in specific cases is as modern as that deployed in the West. However, as indicated in the 1986 Packard commission report *A Quest for Excellence: Final Report to the President*, it is important to understand that this fact may reflect delays in the U.S. procurement process rather than a failure of export controls.

Despite years of effort, then, the Soviets continue to lag the West technologically, and this gap may actually be widening due to Soviet dependence on generally outdated Western equipment and technology (particularly in the field of computer science). Although it would be foolhardy for the United States or other CoCom nations to facilitate Soviet access to militarily critical technology, the panel considers it unlikely that an influx of Western technology will enable the Soviet bloc to reduce the current gap substantially—as long as the West continues its own rapid pace of innovation.

There are other facets of the technology transfer problem that also warrant attention. Intelligence evidence on the extent of unwanted West-East technology transfer must be juxtaposed against the fact that the United States is now confronted with a dramatically altered economic and technological environment—an environment substantially different from that existing for most of the post-World War II period. The panel reviewed in this regard the implications of the following five major developments.

1. *The character of the international marketplace is evolving in such a way that diffusion of technology is rapid and global in scope.* Factors promoting this diffusion include the tendency among multinational corporations to locate research, development, and production facilities around the world and the existence of indigenous capability in many developing countries. Massive amounts of information must be transferred by such companies as they attempt to control and coordinate their international efforts.

2. *There is a growing global market for dual use products, most of which embody advanced technology.* The high-technology sector demands heavy investment in research and development. The rapid technological advances promoted by this investment are tending to push commercial development of technology ahead of military development—a reversal of the pattern established after World War II. Acceleration of commercial development, coupled with a lengthening of the U.S. military procurement cycle, has resulted in the increased availability of dual use products embodying technology more sophisticated than that deployed by the military.

3. *Because trade is a steadily growing part of U.S. economic activity,*

policies that affect it are increasingly important to the overall U.S. economy. The United States is the single largest international trader, reporting exports of $360 billion in 1985. U.S. exports to CoCom countries represented over 60 percent of that total in 1985; in contrast, exports to Soviet bloc countries represented less than 1 percent of U.S. exports for that year. Trade policies that might diminish West-West trade thus have greater potential to damage the U.S. economy than do those that might reduce exports to the Eastern bloc. Although export controls are not a leading cause of the recent decline in U.S. high-technology performance, they may contribute to lost sales and to an environment that discourages export activities by U.S. firms.

4. *U.S. dominance over advanced technology is declining.* The United States now faces stiff competition in almost every high-technology sector from companies in both developed and developing countries with non-U.S.-source technology. The growing technical sophistication of such countries is the result of long-term efforts to develop and enhance indigenous technical capability. (In a growing number of cases, the commitment of resources by such countries now surpasses that for similar efforts made by the United States.) The newly industrializing countries currently do not possess sufficient indigenous high-technology capability to compete at the cutting edge of most industries, but many are beginning to make great strides toward this goal and are already effective competitors at somewhat lower but still technologically sophisticated levels. Thus, the United States cannot succeed in its efforts to block Soviet acquisition of militarily sensitive Western technology unless it has the full cooperation of the (increasing number of) other technologically advanced countries that may represent alternative sources of supply.

5. *Maintaining the vitality of all the Western economies has assumed greater importance for the national security of the United States.* To the extent that technological and economic leadership is now shared with the other principal CoCom countries—namely, Japan, the United Kingdom, France, and the Federal Republic of Germany—it is essential to the national security interests of the United States, for both military and trade reasons, that the economies of these countries remain strong.

THE CURRENT NATIONAL SECURITY EXPORT CONTROL REGIME

The national security export control authority exercised by the executive branch is substantially unchanged in its basic legal structure from that originally granted by Congress in 1940 as an extraordinary war power. Two laws provide the primary statutory mandate. The Arms Export Control Act of 1976 requires government approval for the import and export of military weaponry and services. The Department of State implements the act through the International Traffic in Arms Regulations (ITAR); ITAR is based on the U.S. Munitions List, which is maintained by the Department of Defense (DoD). The Export Administration Act (EAA) of 1979, as amended, controls dual use goods and technologies that could make a significant contribution to the military capabilities of a potential adversary. EAA, which is implemented by the Department of Commerce through the Export Administration Regulations (EAR), also authorizes controls that may be necessary to serve U.S. foreign policy goals and to ensure the domestic availability of resources in short supply.

The regulations implementing the national security export control regime are extensive and complex. Many federal departments and agencies share administrative responsibility for their implementation and participate in the export control policymaking process. The roles of the executive branch agencies are assigned variously by legislation, by regulation, or by executive order. In general, the Commerce Department regulates exports of commercial equipment and technology, while the State Department controls exports of military equipment and technology. DoD advises both agencies on the strategic significance of commercial and military exports. The Department of Commerce and the U.S. Customs Service share responsibility for enforcement of national security export controls.

Multilateral agreements and procedures play an essential role in denying militarily useful technology to potential adversaries. In fact, the heart of the national security export control regime is a set of restrictions on exports to the Soviet bloc, which is maintained on a multilateral basis through the Coordinating Committee on Multilateral Export Controls (CoCom), of which the United States is a founding member. CoCom administers three lists of controlled items: munitions, nuclear energy, and dual use. Many but not all the items on the U.S. Control List parallel items found on the CoCom dual use list (known as the International List). The United States also has bilateral agreements or arrangements with a number of non-CoCom countries that provide for varying degrees of cooperation on national security export controls.

ASSESSMENT OF THE CRITICAL ISSUES

National security export control policy should be the result of a process that weighs the benefits of controls in relations with potential adversaries against their costs in terms of the domestic economy and relations with allies and friendly trading partners. The potential benefits of controls derive from two factors: (1) they make it more difficult for the Soviet Union and its allies to upgrade their military systems through information, technology, and products acquired in the West; and (2) they require the Soviet Union to commit substantial domestic resources to military research and development instead of using acquired Western technology to shortcut the technological development process.

Both the costs and benefits of controls are difficult to assess with precision. There is evidence that controls do slow Soviet acquisition efforts and increase the price of the items they acquire, a conclusion supported at the unclassified level by the Farewell papers (see p. 5), which indicate that during the Tenth Five-Year Plan (1976-1980) the Soviet acquisition program satisfied more than 3,500 specific collection requirements for hardware and documents for the 12 Soviet industrial ministries. The documents also indicate that for 1980 alone the Soviet Union allocated (in rubles) substantially more than $1 billion for the collection of Western documents, blueprints, test equipment, and other hardware.

There are also data that suggest that most of the benefits of controls are concentrated in a relatively narrow range of products and technologies. This range includes advanced equipment for manufacturing high-density semiconductors, automated process equipment for the fabrication of specialized metals and composites, very-high-speed computers, extremely precise test instruments, and aircraft components that can be readily adapted to military uses.

The potential costs of controls also are hard to measure because they derive from the web of competitive and cooperative relationships among Western countries. Nevertheless, the panel did consider it important to attempt an estimate of those costs to the U.S. economy that are associated mainly with current features peculiar to the U.S. national security export control system. Of principal concern are the present and future sales and market share (both West-West and West-East) and reduced investment in research and development that U.S. producers of goods and technologies may lose or forego—without the compensating national security benefits of denying the Soviets embargoed technology—as a result of how the U.S. control system is designed and administered and of how it compares with the control systems of other countries with competitive suppliers. For example, reduced revenue from lost sales and market share may translate into less investment, a lower growth rate, and reduced innovation, with resulting adverse effects on both the commercial and military sectors. In addition, technology controls also have created friction among the Western allies—friction that may interfere with their successful collaboration on weapons development, production, and standardization, or on other matters bearing directly on East-West relations.

In contrast to their benefits the costs of export controls are spread across an enormous volume of transactions representing a large share of

U.S. trade. Based in part on data provided by the Commerce Department, the panel estimates that 40 percent—approximately $62 billion—of all U.S. exports of nonmilitary manufactured goods in 1985 were shipped under a license requiring prior approval. In addition, U.S. controls extend to sales by U.S. foreign subsidiaries and independent foreign companies using products, components, parts, services, and technology of U.S. origin.

In an effort to assess the operation and some of the effects of export controls, the panel analyzed a sample of licenses* for goods classified by level of military sensitivity using administrative criteria developed in U.S. government deliberations and/or CoCom negotiations. The analysis showed that the broad control net is heavily weighted with transactions involving items of less than critical military importance with customers in friendly Western countries. Ninety percent of individual license applications are for exports to Free World countries. One-third of these applications are for items that may be exported to CoCom countries under a general license and even to Soviet bloc destinations without prior CoCom approval. Roughly two-thirds of license applications are for items sufficiently lacking in military importance that they may be shipped to the People's Republic of China (PRC) without prior CoCom approval. Only about 13 percent of the applications are for very sensitive items that require an individual U.S. license to all countries (i.e., they are not eligible for export under a bulk license) as well as CoCom approval for shipment to the bloc or the PRC.

The sheer volume of transactions subject to government review and approval sharply limits the ability of licensing officers to focus on more critical items. Data obtained from the Commerce Department indicate that individual license applications for exports to the Warsaw Pact and to Western countries that exercise little control—and are therefore potential points of diversion—appropriately receive more scrutiny than those for exports to CoCom destinations. But the current control regime does not apply similar discrimination to sales within the West of products having greater and lesser military significance.

The adverse competitive effects of export controls could be alleviated by the establishment of a community of common controls in dual use technology (i.e., a set of trade relationships unimpeded by national security restrictions) among cooperating Free World countries. Such an arrangement does not now exist. U.S. national security export controls encompass more products and technologies, are generally more restrictive, and entail more administrative delays and shipper uncertainties than those of the other major CoCom countries. Only the United States requires foreign resellers, even in countries that are our closest allies, to obtain the prior approval of—or to account periodically to—the U.S. government for reexports of U.S.-origin products, U.S.-origin parts and components incorporated into foreign equipment, and foreign products manufactured with U.S.-origin technology. These controls appear even more restrictive in light of the fact that many controlled products are available from or through non-CoCom countries with few or no restrictions.

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*The panel requested and was granted a "national interest exception" under Section 12(c) of the Export Administration Act permitting its consultants unprecedented access to Commerce Department license files and data bases, subject to strict observance of confidentiality of business information. The subsequent analysis conducted by consultants was of a sample oı 1,618 processed license applications categorized by Commerce Department license officers.

There is both anecdotal and statistical evidence that the relative stringency of U.S. controls is, with increasing frequency, causing Free World customers to turn to non-U.S. suppliers or to begin to explore alternative sources including internal development. Respondents to a panel survey of U.S. companies,* reflecting on their experience during the 12 months prior to May 1986, perceived the control system as frequently having significant adverse effects on their business:

- 52 percent reported lost sales primarily as a consequence of export controls;
- 26 percent had business deals turned down (in more than 212 separate instances) by Free World customers because of controls;
- 38 percent had existing customers actually express a preference to shift to non-U.S. sources of supply to avoid entanglement in U.S. controls; and
- more than half expected the number of such occurrences to increase over the next 2 years.

In addition, the panel has documented that U.S. exporters already have lost business to suppliers in other technologically advanced nations because of unilateral controls on analytic instrument exports and on independent foreign distributors and equipment manufacturers operating under U.S. distribution licenses. In the first instance, the short-run loss attributable to export controls is about 10 percent of the value of U.S. exports; in the second instance, the loss to date is smaller. But over time, as the relative restrictiveness of U.S. controls becomes more consequential to existing and potential foreign customers, the greater the weight such restrictiveness is likely to be given in customers' choices among suppliers. (This process has been referred to by some as "de-Americanization.")

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*The sample of companies surveyed was oriented toward firms in the electronics (equipment and components), aircraft (airframes, engines, and parts), instrumentation, and machine tool sectors The 170 respondents accounted for roughly $36 billion of foreign sales in 1985 or approximately 28 percent of estimated total U.S. high-technology sales.

These losses are occurring at a time when U.S. producers are experiencing a decline—for reasons unrelated to export controls—in their relative competitive advantage. This decline is appearing not only in level of technology but also in price competitiveness, product quality, marketing, and service—factors that might otherwise more than compensate for the negative competitive effect of export controls. All policies that contribute to a loss of U.S. competitiveness are of concern, not solely from an economic standpoint but also due to national security considerations. By promoting the emergence and growth of alternative sources of technology to the Soviet Union, such policies make denial or delay yet more difficult to achieve.

One indicator of the *effectiveness* of the control effort is the level of corporate compliance. Although this level can never be determined precisely, there is evidence that compliance has increased in recent years as the current U.S. administration has committed substantial resources to vigorous enforcement. It is difficult, however, to determine whether the enforcement campaign has reduced the number of intentional diversions. Moreover, in terms of the enforcement of reexport controls, the overwhelming majority of applications continue to come from U.S.-headquartered companies and their foreign affiliates, suggesting that compliance by foreign-owned firms is relatively poor. A possible explanation of this phenomenon may stem from foreign attitudes toward these controls as well as from the fact that such controls often duplicate those already imposed by the exporting country. Where there are non-U.S. sources willing to supply comparable products, foreign firms that know of the attendant requirement to comply with U.S. export restrictions may have little incentive to buy U.S. products.

There are also indications that the licensing process discriminates against small- to medium-sized firms. With regard to license denials, processing delays, inaction, and conditional approvals—all factors contributing to uncertainty—there is a pronounced firm-size differential in the administration of national security export controls. Relative to those of large-volume exporters, small firm applications to Free World destinations take 25 percent longer on average.

An indicator of the *efficiency* of the administrative control effort—and a perennial concern of Congress, the business community, and the responsible agencies—is the time it takes to process export licenses. Shipping delays impose direct costs on the exporter and an indirect cost in customer confidence. Both the Commerce Department and DoD have expended substantial effort and resources to speed up the licensing process, and both have made progress in reducing *average* processing times. What averages in this instance obscure, however, is the highly skewed distribution of processing times. The distribution has an extended "tail," and it is these cases that both absorb a large proportion of the corporate resources devoted to working the system and create uncertainty in the market. The number of such cases is not insignificant; for approximately 5 percent of all applications (and there were 122,606 total applications in 1985), the processing time extends beyond 100 days.

The efficiency of U.S. export control administration is hampered to a substantial degree by the shared responsibility distributed among the relevant agencies—the Departments of Commerce, State, and Defense. It is hampered further by the fact that neither the Department of Commerce nor the Department of State has made as much progress as the Department of Defense in upgrading their human and technical resources and in automating the licensing process. The result is a lack of balance in interagency policy deliberations and inefficiency in the licensing process. Currently, there is also no effective mechanism for weeding out from the Control List those products and technologies that have ceased to be strategic or that have become so widely available that control, for all practical purposes, is impossible. The momentum is to add, not to delete, and the principal licensing agency (the Department of Commerce), with a stake in keeping its task from becoming unmanageable, has been unable to slow it down.

The Militarily Critical Technologies List (MCTL), which is maintained by DoD, serves a limited purpose within the department as a reference document for developing control proposals and informing licensing decisions. It is also useful for identifying those goods and technologies that have dual use potential. But before goods and technologies actually can be controlled, it is necessary to assess their foreign availability (and other factors affecting controllability) and then to strive to gain CoCom-wide restrictions.

One of the principal outcomes of the continuing interagency disagreement on export control policies and procedures has been the virtual breakdown of the technology decontrol process based on positive foreign availability findings, a process originally mandated by Congress in 1979. This breakdown is largely attributable to the fact that no time constraints are specified in the legislation for government completion of investigations of foreign availability. A related problem has been the substantive disagreements between the Departments of Commerce and Defense over both the criteria for determining foreign availability and the strategic importance of particular items. The resulting de facto veto authority exercised by DoD thwarts the intent of Congress, which designated the Department of Commerce as lead agency in determining foreign availability.

Through foreign policy and economic cycles, the premise that Soviet acquisitions of leading Western dual use technologies represent a serious military threat has not been seriously challenged anywhere in the Western alliance. Although there have been lapses in attention and frequent disputes over scope and means of control, this consensus continues to underlie the success of the current administration's effort to revitalize the CoCom process. The goal of U.S. policy thus should be to so improve the multilateral control system that it is possible to remove controls from West-West trade. The panel believes, however, that there are two features of current U.S. policy that impede progress toward this goal: (1) the tendency to resort to foreign policy trade sanctions to penalize Soviet political behavior without distinguishing such sanctions from national security controls and without consulting our allies before imposing them; and (2) the continuance of extraterritorial controls that signal U.S. mistrust of our CoCom partners and offend their national sovereignty.

These problems notwithstanding, the persistent efforts of the United States over the past 5 years to strengthen CoCom and improve its operational efficiency and effectiveness have produced positive results—results that have not been achieved without certain difficulties. Gaining a consensus among CoCom members has not been easy. The interests of member countries can differ significantly, and each one evaluates the value of trade restrictions against proscribed countries differently. Furthermore, additional efforts now will be required to bring about greater harmonization of national policies on the part of all participating countries to work toward a fully multilateral community of common controls.

Cooperation from countries that are not members of CoCom has become important to the success of the CoCom control efforts. It will be critical in the future as a growing number of third countries become significant markets for CoCom-controlled goods and develop indigenous products that fall within CoCom control parameters. CoCom members have formally agreed—as part of the so-called "third country initiative"—to urge non-CoCom Free World nations to establish and strengthen their controls vis-à-vis proscribed nations. In this regard the United States, with the support of its CoCom allies, has achieved some success in pursuing bilateral agreements with friendly, non-CoCom Free World countries to protect some CoCom- and U.S.-origin goods. Although such agreements have been reached with a few countries, however, none of those concluded to date comes close to meeting the comprehensive criteria proposed by the United States for protecting CoCom-proscribed technology from *all* sources including that produced indigenously.

FINDINGS AND KEY JUDGMENTS OF THE PANEL

Based on the research initiatives and deliberations undertaken in pursuit of its charge, the panel reached unanimous agreement on a series of principal findings and key judgments listed below.

I. THE PRACTICAL BASIS FOR NATIONAL SECURITY EXPORT CONTROLS

The fundamental objective of the national security export control regime maintained by CoCom is to deny—or at least to delay—the Soviet Union and its Warsaw Pact allies access to state-of-the-art Western technology that would permit them to narrow the existing gap in military systems. Yet, there are no well-defined criteria that can be used to determine whether a given technology will enhance significantly Soviet military capability. Moreover, the precise definition and implementation of such criteria will depend to a large extent on the world view of the decision maker. For an export control system to be operationally effective, however, such distinctions must be drawn. This difficulty can be surmounted in practice by establishing a definition that permits effective, practical implementation of controls with our allies, which means restricting controls to technologies that are easily identified with military uses.

II. CONSIDERATIONS INFLUENCING NATIONAL POLICY

1. **Technology lead is vital to Western security and must be maintained.**
   Western security depends on the maintenance of technology lead over potential adversaries. This lead can only be sustained through a dual policy of promoting a vigorous domestic technological base and impeding the outward flow of technologies useful to the Warsaw Pact in military systems.
2. **Export competitiveness is essential to the health of the U.S. domestic economy.**
   In some industrial sectors, especially high-technology enterprises, firms now must remain competitive in the world market to maintain a share of the U.S. domestic market, due to necessary economies of scale and the increased importance of R&D from foreign sources. The new realities of global competition are not yet fully reflected in the policies underlying current U.S. national security export controls.
3. **The scope of current U.S. national security export controls undermines their effectiveness.**
   U.S. national security export controls are not generally perceived as rational, credible, and predictable by many of the nations and

commercial interests whose active cooperation is required for an effective system. In their view the scope of current U.S. controls encompasses too many products and technologies to be administratively feasible. The panel concurs with this judgment.

4. **U.S. national security export controls impede the export sales of U.S. companies.**

   There is limited but specific evidence that export sales have been lost or foregone because of uncertainty or delays in the licensing process and because of concern about future license approvals, availability of spare parts and components, and possible reexport constraints. Once changes in buying preferences occur, they may require large investments of time and effort to reverse.

5. **Pragmatic control lists must be technically sound, narrowly focused, and coordinated multilaterally.**

   Although the control criteria developed in 1976 as part of the report of the Defense Science Board task force (*An Analysis of Export Control of U.S. Technology—A DoD Perspective*), also known as the Bucy report, are theoretically sound, they have not always proven useful to the implementation of national security export controls. The preparation of control lists must be a dynamic process that is both informed by advice from technical advisory groups and constrained by the need to be clear, to focus control efforts more narrowly on fewer items, and to coordinate U.S. action more closely with that of our CoCom allies.

6. **The extraterritorial aspects of U.S. controls engender mistrust and weaken allied unity.**

   Several elements of U.S. national security export controls, especially the requirement for reexport authorization, are having an increasingly corrosive effect on relations with many NATO countries and on other close bilateral relationships. They signal U.S. mistrust of the will and capacity of allies to control the flow of sensitive technology to the Soviet bloc.

III. SOVIET TECHNOLOGY ACQUISITION EFFORTS IN THE WEST

1. **Available evidence on Soviet technology acquisition efforts reinforces the need for effective multilateral export controls.**

   The panel has reviewed a substantial body of evidence—both classified and unclassified—that reveals a large and aggressive Soviet effort to target and acquire Western dual use technology through espionage, diversions, and to a lesser degree legitimate trade. There is limited but specific evidence both on the means by which Soviet acquisitions are accomplished and on their important role in upgrading or modernizing Soviet military systems. Although internationally coordinated efforts are necessary to counter the use of diversions or legitimate trade for such purposes, export controls are not a means for controlling espionage, which alone accounts for a high proportion of successful Soviet acquisition activities.

2. **Despite systemic difficulties, Soviet technical capabilities have successfully supported the military objectives of the USSR.**

   Because the Soviet system does not enjoy the benefits of a robust commercial sector, it is at a fundamental disadvantage in terms of the promotion of technological innovation. Nevertheless, the Soviets have demonstrated an effective technical capability to meet their military objectives.

IV. DIFFUSION AND TRANSFER OF TECHNICAL CAPABILITY

1. **Wide global diffusion of advanced technology necessitates a fully multilateral approach to controls.**

   Because advanced technology has now diffused so widely, national security export controls cannot succeed without the following: (1) an effective CoCom process by which the other major CoCom countries accept responsibility for regulating exports and reexports from their territory of CoCom-controlled technology to non-CoCom Free World countries; and (2) the adoption by the more advanced newly industrializing countries of CoCom-like standards for their own indigenous technology.

2. **Controls on the employment of foreign nationals in the U.S. R&D infrastructure must be used selectively and sparingly.**

   Foreign nationals now play a significant role in U.S. domestic R&D activities as well as in the laboratories of U.S. foreign subsidiaries. Such individuals contribute significantly to U.S. technological innovation and hence promote the national interest. Sparing use should therefore be made of existing legislative authority to restrict technical exchanges or to limit full participation of foreign citizens in the U.S. R&D community. It is particularly important to distinguish, as appropriate, between citizens of nations to whom exports are proscribed and citizens of all other nations.

V. FOREIGN AVAILABILITY AND FOREIGN CONTROL OF TECHNOLOGY

1. **The congressional mandate for decontrol of items based on foreign availability is not being fulfilled.**

   The lack of action on foreign availability is inconsistent with the intent of Congress as expressed most recently in the Export Administration Amendments Act of 1985. In those cases in which there is foreign availability of U.S.-controlled items, U.S. industry is unfairly placed at a competitive disadvantage with respect to firms from other countries that are not similarly constrained. This disadvantage can lead to the erosion of competitive market advantages previously enjoyed by U.S. industry and in some cases to the permanent loss of U.S. markets.

2. **Control of "technological commodities" is impractical.**

   The control of goods for which the volume of manufacture is so large and the scope of marketing and usage so wide that they have become "technological commodities" (e.g., some classes of personal computers or memory chips) is not practical. Decontrol of such goods to all Free World destinations is, in some cases, the only appropriate solution.

3. **Bilateral agreements with Free World non-CoCom countries must protect all CoCom-origin technology and must control similar indigenously produced goods.**

   Over the short term, bilateral agreements that restrict only the reexport of U.S.-origin technology unfairly disadvantage U.S. companies in international trade. Over the long term, these agreements with non-CoCom countries will not promote the effectiveness of the CoCom export control system unless they restrict the reexport of technology from all CoCom sources as well as technology produced indigenously.

4. **Other CoCom countries must be more vigilant in preventing diversions of both CoCom-origin and indigenously produced technology.**

   Some members of CoCom could substantially improve their efforts to prevent diversions of CoCom-origin products and technology being exported to third countries. Since compliance with U.S. reexport controls is not likely to become politically acceptable in most CoCom countries, some compromise solution must be reached.

5. **The extraterritorial reach of U.S. controls damages allied relations and disadvantages U.S. exporters.**

   The extraterritorial reach of U.S. reexport controls is anathema to most U.S. trading partners. Moreover, many foreign governments do not agree that the United States has jurisdiction over the actions of their citizens outside U.S. territory. The extraterritorial extension of U.S. controls is viewed by these governments as a direct challenge to national sovereignty and a clear violation of international law. It is seen as additional evidence of mistrust by the United States of the capacity of these governments to further the West's common interest in preventing the diversion of militarily important goods and technologies.

VI. EFFECTIVENESS OF THE MULTILATERAL PROCESS

1. **The United States must clearly distinguish foreign policy export controls from national security export controls.**

   There is much less consensus among the CoCom allies on the use of trade restrictions for foreign policy reasons than on controls in the interests of national security. Thus, to the extent that the United States fails to distinguish clearly between the two, allied cooperation in support of consensual national security objectives is undermined.

2. **The impact of controls on advantageous scientific communication and transfer within the Western alliance must be minimized.**

   Because open scientific communication and trade within the West are as important to maintaining Western technology lead as is controlling the flow of technology to the Soviet bloc, U.S. policy should lend equal emphasis to both objectives.

3. **The CoCom countries should take specific steps to bolster the efficiency and effectiveness of multilateral controls.**

   Among the most important issues now facing CoCom are: (a) reduction in the overall scope of the list, (b) modification of the procedures for decontrolling items from the International List of dual use items, and (c) provision of greater transparency in CoCom decision making.

4. **The CoCom process would benefit if all country delegations had balanced economic and defense representation.**

   The U.S. delegation to CoCom, unlike those of other member nations, includes a significant contingent of defense officials. A balance of economic and defense representation on all CoCom delegations would enhance CoCom unity and the usefulness of the CoCom process, in part by helping to resolve conflicts between competing economic and military objectives.

5. **Foreign perceptions of U.S. commercial advantage derived from export controls impede multilateral cooperation.**

   There is a widely held view in Europe and the Far East that the United States uses its national security export controls to afford commercial advantage to U.S. companies. Although the panel found no substantive evidence to support this view, the existence of these perceptions makes it difficult to gain effective multilateral cooperation.

6. **Unilateral controls are of limited efficacy and may undermine allied cooperation.**

   The imposition by the United States of unilateral national security export controls for dual use items can be justified only as a stopgap measure pending negotiations for the imposition of multilateral controls or in rare cases in which critical national security concerns are at stake requiring unilateral restrictions. It must be recognized that, except when used as a temporary measure, the application of unilateral controls undermines the incentive of the allies to develop a sound basis for multilateral restriction.

VII. ADMINISTRATION OF U.S. NATIONAL SECURITY EXPORT CONTROL POLICIES AND PROCEDURES

1. **The lack of high-level oversight and direction degrades the effectiveness of U.S. controls.**

   The administrative structures established by the executive branch have not proven effective in resolving the frequent policy differences among the three principal line agencies (the Departments of State, Defense, and Commerce). The White House has intervened only intermittently and then primarily to contain interagency conflict rather than to provide adequate policy direction. The lack of higher-level oversight and direction results in duplication of effort, uncertain lines of authority, serious delays in decision making, and underutilization of information-sharing capacity.

2. **Unequal effort by and resources of the three principal line agencies have led to conflict, confusion, and unbalanced policy.**

   DoD's determined efforts to reinvigorate the national security export control regime have been useful in raising the general level of awareness in the United States and in other CoCom countries. But this increasingly active DoD role also has led to an imbalance in the distribution of government effort and resources. Although DoD has created a new dedicated agency for technology security, neither the Department of Commerce nor the Department of State has been able to implement equally effective measures. The result is a lack of balance in the interagency policy formulation process and an inefficient licensing process.

3. **Shifts in responsibility within the line agencies may preclude broadly informed and balanced policy judgments.**

   Reorganization initiatives in a number of the principal line agencies tasked with managing export controls have resulted in a shift of responsibility away from organizations with expertise in technology development and international trade and toward those whose principal and often only concern is technology control. Although there have been positive effects of this shift in responsibility, there has been a loss of sustained technical input into the policy process for national security export controls.

4. **Current licensing requirements, classification procedures, and proprietary controls for technical data are both appropriate and adequate.**

   Although technical data that are not publicly available require a validated license for export to the Soviet bloc, data exports to other destinations for the most part are eligible for a general license. The need for the unhindered exchange of large volumes of data in international commerce and research indicates that a strict system of control is neither feasible nor desirable. Existing licensing requirements, classification procedures, and proprietary controls offer sufficient protection.

5. **Controls on unclassified DoD technical data have a chilling effect on the U.S. R&D community and should be imposed sparingly.**

   The Department of Defense Authorization Act (DAA) of 1984 permits DoD to impose restrictions on domestic dissemination or export of DoD-funded or DoD-generated technical data whose export would otherwise require a validated license under EAR or ITAR. Such restrictions have the effect of creating de facto a new category of unclassified but restricted information. These new, more comprehensive technical data restrictions have had a chilling effect on some professional scientific and engineering societies that have elected voluntarily to close certain sessions. It is the panel's judgment that imposing controls on technical data that are broader than those now in effect is not warranted by the demonstrable national security benefits.

6. **The congressional mandate for integrating the Militarily Critical Technologies List (MCTL) into the Commerce Department Control List practically cannot be accomplished.**

   The MCTL has been used inappropriately as a control list, and its annual revision has resulted in a voluminous itemization of many important technologies without apparent prioritization. Because the Departments of Defense and Commerce maintain fundamentally different objectives in their list development exercises, the congressionally mandated task of integrating the MCTL into the Commerce Department's control list practically cannot be accomplished.

7. **The complexity of U.S. export controls discourages compliance.**

   The complexity of U.S. controls discourages compliance, especially by foreign firms and small- to medium-sized U.S. companies. For example, the Export Administration Regulations constitute nearly 600 pages of rules and procedures. These could be reduced and simplified substantially—and made more "user friendly."

8. **There is a need for high-level industry input in the formulation of national security export control policy.**

   There is a need for an effective mechanism within the government to provide meaningful input from the private sector on the formulation of a coordinated national security export control policy. Such a group must be constituted at sufficiently high corporate levels to reflect major industry concerns, and it must be able to have an impact on the actual policy process.

9. **Voluntary cooperation from industry is important to the enforcement of export controls.**

   Voluntary cooperation by U.S. industry—particularly companies with overseas subsidiaries—is important to export control enforcement, especially in the identification of violations. Companies frequently have knowledge otherwise unavailable to the government of possible violations by other firms.

10. **Adequate information to evaluate the impact of national security export controls is not maintained by the U.S. government.**

    This study has revealed serious shortcomings in both the quality and quantity of information maintained and analyzed by the U.S. government on the coverage, operation, and domestic and global impacts of national security export controls. In the absence of better information, it will continue to be difficult for policymakers to arrive at more informed and balanced judgments as to the advisability of controls.

11. **A comprehensive cost/benefit analysis of controls currently is infeasible.**

    Despite some preliminary efforts to assess the competitive effects of national security export controls, a *comprehensive* empirical analysis of the costs and benefits is precluded by the lack of data, by the complexity of the system, and by a variety of qualitative judgments that must enter into any evaluation.

There is little doubt that, without the heightened attention to these issues initiated in the early years of the current administration by DoD, the problem of Western technology diversion to the Soviet Union would by now be considerably worse. But the panel is concerned that this policy "correction"—useful and necessary as it was—should not now overshoot the mark. The panel wishes to reiterate therefore its concern about the continuing lack of balance within the policy process for national security export controls regarding the representation of technical, national security, economic, and domestic and international political interests. This balance should be developed and maintained within each agency, among agencies of the U.S. government, and among countries participating in CoCom.

RECOMMENDATIONS OF THE PANEL

The panel makes two basic recommendations, together with a series of corollary prescriptions.

I. STRENGTHEN THE COCOM MECHANISM

The panel recommends that the United States take the lead in further strengthening the CoCom mechanism so that it can function as the linchpin of a fully multilateral national security export control regime for dual use technologies. Under current and prospective global circumstances, such a multinational system is essential to achieve maximum export control effectiveness without impairing Western economic vitality. To strengthen the current multilateral control regime will require greater harmonization of the current U.S. approach and those of our technologically advanced allies through closer consultation and the adoption of policies that promote cooperation. The two most immediate objectives are: (1) to limit the coverage of the U.S. Control List and the CoCom International List to those items whose acquisition would significantly enhance Soviet bloc military capabilities and that are feasible to control, and (2) to obtain agreement on a common approach to reexports of CoCom-origin items.

The United States should strive to create a community of common controls in dual use technology—that is, a set of trade relationships unimpeded by national security restrictions—among those Free World nations that share an expressed willingness to adhere to common or equivalent export control restraints on the transfer of strategic and controllable goods and technologies to the Soviet Union and its Warsaw Pact allies. Accordingly, the panel recommends the following changes in U.S. policy.

1. **Control Only CoCom-Proscribed Items**

   As a general policy, the United States should seek to control only the export of CoCom-proscribed items and then only when they are destined for a proscribed country or for a non-CoCom Free World country that has not entered into an agreement* to protect CoCom-proscribed technology.

2. **Within CoCom, Seek Control on Exports to Third Countries**

   With respect to CoCom, the United States should negotiate agreements with member countries regarding control of exports and reexports from their territories to third (i.e., Free World non-

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*Such an agreement might be implemented either through a formal memorandum of understanding or an informal arrangement that achieves the same result.

CoCom) countries, thereby obviating the need for U.S. reexport authorizations. For those CoCom countries with which agreement on the control of exports to third countries can be achieved, the requirement to obtain validated licenses should be eliminated—*except* for the export of extremely sensitive high-level technology (e.g., supercomputers). For those CoCom countries unwilling to agree to or unable to implement such controls, the present system of validated licenses should be retained.

3. **Negotiate Comprehensive Understandings with Third Countries**

   With respect to non-CoCom Free World countries, the United States should, in coordination with other members of CoCom, negotiate *comprehensive* understandings—or equally effective informal arrangements considered acceptable by the Department of State—that specify controls on the export of all CoCom-proscribed goods and technology (including those produced indigenously) to the Warsaw Pact countries or to other noncooperating third countries. A graduated scheme of incentives should be developed for non-CoCom Free World countries that agree to less than comprehensive controls. Those third countries that have agreed to comprehensive arrangements should be accorded full "CoCom-like" treatment; that is, they should not be subject to U.S.- validated license or reexport authorizations as soon as they can demonstrate their ability and willingness to enforce the control agreement.

4. **Remove Items Whose Control Is No Longer Feasible**

   Regardless of the rate of progress on CoCom and third country negotiations, the United States should actively seek to remove from both the U.S. Control List and the CoCom International List items whose control is no longer feasible because of their widespread production, distribution, and sale throughout the world. (See also Item II.4 on p. 27.)

5. **Maintain Unilateral Controls Only on a Temporary Basis or for Limited, Unique National Security Circumstances**

   Regardless of the rate of progress on CoCom and third country negotiations, the United States should eliminate the use of unilateral national security export controls *except* in those circumstances in which active efforts are under way to negotiate multilateral controls within and outside of CoCom—in which case unilateral controls could be maintained on a temporary basis—*or* in those situations in which unique national security circumstances warrant the imposition of such controls for limited periods of time. The panel wishes to emphasize, however, that the phrase "unique national security circumstances" does not justify retaining the present U.S. unilateral Control List. Rather, the panel recommends that controls be established on a multilateral basis. In the *rare* case in which a CoCom country may believe that critical national security concerns are at stake, it may wish to reserve the right to establish a unilateral restriction on its domestic industry. This exception should be used sparingly.

6. **Eliminate Reexport Authorization Requirements in Countries Participating in a Community of Common Export Controls on Dual Use Technology**

   To further the objective of developing a community of common controls on dual use technology among cooperating countries of the Free World and to encourage international cooperation and trust, the United States should eliminate any requirement that a buyer must seek authorization for a reexport that is subject to CoCom or "CoCom-like" controls by the country initially exporting the product or technology. For effective enforcement, reliance should be placed instead on the cooperating governments.

7. **Maintain Current Control Procedures on the Transfer Within CoCom of Sensitive Information, Technical Data, and Know-how**

   The United States should continue to rely on current security classification procedures and the protection afforded by general license GTDR (technical data restricted) or by proprietary interests to control the transfer within CoCom of information, technical data, and know-how that are considered militarily important.

8. **Reduce the Scope of the CoCom List and Modify CoCom Decision-Making Policies and Procedures**

   There are a number of steps that the United States—together with its CoCom allies—should take to improve the efficiency and effectiveness of the multilateral process. The most important of these are to reduce the overall scope of the CoCom International List to improve credibility and enforcement and to add a 4-year "sunset provision" that would cause the automatic removal (unless they were periodically rejustified) of lower-level CoCom items.

9. **Maintain a Clear Separation Between National Security and Foreign Policy Export Controls**

   Existing statutory authority describes separate systems and procedures for the control of exports for foreign policy versus national security reasons. Therefore, because many of our CoCom allies continue to disagree profoundly with some unilateral U.S. foreign policy trade sanctions, the U.S. government should maintain the clearest possible distinction between the administration of national security and foreign policy controls.

II. ACCORD GREATER IMPORTANCE IN U.S. NATIONAL SECURITY EXPORT CONTROL DECISIONS TO MAINTAINING U.S. TECHNOLOGICAL STRENGTH, ECONOMIC VITALITY, AND ALLIED UNITY

The panel recommends that executive branch decisions concerning national security export controls accord greater importance than they currently do to maintaining U.S. technological strength, economic vigor, and allied unity. Ultimately, an effective multilateral national security export control regime can be established only through the commitment and support of the President and Congress. Nevertheless, the decision-making and advisory mechanisms of government also must be constituted and tasked appropriately to facilitate the effective implementation of the policy approach proposed above. To this end, the panel recommends the following specific changes in U.S. policy and procedures.

1. **Balance the Protection of Military Security with the Promotion of National Economic Vitality Through Affirmative Policy Direction**
   The President should require that the National Security Council (NSC) implement the *existing* policy mandate (as set forth in the Export Administration Act of 1979, as amended), which calls for both the protection of military security and the promotion of national economic interests. NSC should provide *regular*, affirmative policy direction to the responsible line agencies, a recommendation that can be accomplished by staffing the NSC properly to deal with these matters and by assigning a senior NSC staff member specific responsibility for bringing agency representatives together to resolve policy differences. The panel further recommends that the secretaries of commerce and treasury participate in NSC meetings at which export control matters are to be addressed.
2. **Provide Sufficient Resources and Authority to the Departments of Commerce and State to Allow Them to Fulfill Their Roles in the Export Control Process**
   To establish a more balanced policymaking process within the federal government, the Departments of Commerce and State should be allocated sufficient resources dedicated to the implementation of national security export controls. In particular the Commerce Department should upgrade significantly the capacity and sophistication of its automated systems and the quality of its in-house technical and analytic expertise. It is also essential that the State Department vigorously exercise its traditional role of ensuring that the U.S. government speaks with a single, coherent voice when dealing with foreign governments and foreign firms on these matters.

3. **Restore Technical Judgment and Overall Balance to the National Security Export Licensing Process**

   The locus of responsibility and decision making within DoD has shifted from the office responsible for research and engineering to the office responsible for policy. As a result, there has been a significant reduction in the weight accorded to technical factors and a resultant imbalance in the policy process. It should now be the goal therefore to reestablish a major role for the technical side of DoD and to reduce the DoD role in detailed license review as parallel steps are taken within the Commerce Department to further strengthen its licensing procedures.

4. **Implement the Decontrol Procedures Required by Law When Foreign Availability is Found to Exist**

   The lack of action by the federal government on foreign availability determinations is contrary to the mandate of the Export Administration Act of 1979, as amended. This is due in part to the fact that no specific time lines for the completion of foreign availability determinations have been specified in legislation. At the very least the Export Administration Act should impose reasonable time lines on *all* responsible agencies. Because the process for determining foreign availability is not now functioning effectively, there is a need for effective remedial action by both the executive and legislative branches.

5. **Withdraw the Statutory Requirement to Integrate the MCTL into the Commerce Department's Control List**

   Congress should withdraw the statutory requirement for the integration of the Militarily Critical Technologies List into the U.S. Control List. The fundamentally different nature and functions of the two lists—the former an exhaustive list of all technologies with military utility and the latter a specific list of items requiring an export license—make this goal unattainable.

6. **Provide Effective, Two-Way Communication at the Highest Levels Between Government and the Private Sector**

   A mechanism should be established (or upgraded) to provide effective, two-way communication between the highest levels of government and of the private sector on the formulation and implementation of coordinated national policies that balance military security and economic vitality. To this end the panel recommends that senior policy staff of the Executive Office of the President meet periodically with the President's Export Council and/or other respected representatives of the private sector and inform the President of the concerns of this sector regarding the domestic and international commercial impacts of national security export controls. It may be necessary for Congress to establish a mechanism to ensure appropriate consideration of industrial concerns in the formulation of national security export control policy.

Senator HARKIN. Very good suggestions. Thank you very much. Mr. Wayne Sayer, welcome to the Subcommittee. Please proceed.

STATEMENT OF R. WAYNE SAYER, R. WAYNE SAYER & ASSOCIATES, WASHINGTON, DC

Mr. SAYER. Thank you, Mr. Chairman. My name is Wayne Sayer. I represent several small high technology businesses including ATEQ Corp. which is a manufacturer of semiconductor manufacturing equipment; and United Epitaxial Technology which is a minority-owned producer of advanced semiconductor materials; and Presentation Technologies, Inc., a manufacturer of PC based office products used to create presentation graphics.

I am here today on behalf of the American Electronics Association. AEA, while thought of as a major company organization, has more than 3,000 high technology companies across America primarily composed of small business. Three-fourths of the member companies of AEA employ fewer than 250 people. These are involved in computers, telecommunications instruments, semiconductors, and software. We are the largest trade association representing U.S. electronics.

Electronics is the toolmaker that enables other industries to strengthen productivity and competitiveness. Between 1978 and 1984, the electronics industry created over a million new jobs in the U.S., and we now directly employ 2.5 million Americans, many more in directly related industries.

Industry employs four times more people than either motor vehicles or aerospace, and six times more people than steel. However, the evidence shows that our grip on the technological war is slipping. The world-wide trade in electronics products has fallen from a surplus of $7.4 billion in 1980 to a deficit of $13.1 billion in 1986 while our employment has stayed flat.

The electronics industry does not look to Congress to legislate the trade deficit away. We believe it is the responsibility of industry to compete more effectively. However, the U.S. Government shapes the international economic environment in which we do business.

As fraction of the gross national product imports of manufactured goods are today less than their level in 1980. Exports have fallen even faster. Therefore, remedies to the trade imbalance should focus on promoting exports rather than limiting imports.

We support totally the language that Dr. Wallerstein presented. I brought with me today, and we have for permanent record, a case study report prepared, shall we say, a trail of tears, horror stories having to do with dealing with the bureaucracy and with the system of trying to compete internationally while dealing with a very complex system.

The regulations that were referred to here, you can imagine if you were a two person, three person organization faced with this and trying to do business overseas, you may indeed say well—and I think many entrepreneurs do not suffer red tape lightly. They have difficulty with that and they may take another direction, and it directly affects our ability to increase exports from the United States.

In spite of the changes for the better that have been taking place in the Department of Commerce since the 1985 Act, there is still quite a bit of room from improvement. As we are here today, the legislation for improving Export Control Act by amending is passing through the Senate Banking Committee next week. We would certainly solicit the support of the committee members in making these changes that are making way for more effective international commerce.

We are not trying to give away the store. We are really wanting to place higher fences around fewer items and increase our ability to compete internationally, and to change the balance of things back to where our deficits are running the opposite direct.

I will leave with you both this as well as our supported recommendations as well.

[The prepared statement of Mr. Sayer follows:]

Testimony of
R. Wayne Sayer
R. Wayne Sayer and Associates
on behalf of the
American Electronics Association
before the
Committee on Small Business
U.S. Senate
Washington, D.C.
April 30, 1987

Summary

1. The electronics industry is the largest manufacturing sector in the U.S.
    - The industry employs 2.5 million people--four times more than autos and six time more than steel;
    - The industry experienced a $13.1 million trade deficit in 1986 and employment has remained flat since 1984.
2. The U.S. must increase exports rather than limit imports.
    - Imports of manufactured goods are less today in terms of GNP than in 1980;
    - Unnecessary export control obstacles must be removed if small, high technology firms are to compete effectively overseas;
    - The 1985 amendments to the Export Administration Act have not been fully implemented.
3. AEA endorses the recommendations of the NAS panel on export controls.
    - Today's KGB "shopping list" is much shorter than the U.S. control list;
    - We need to place "higher fences" around fewer items.
4. Omnibus trade legislation should include reforms to the Export Administration Act.
    - AEA's case study on export control documents specific export problems high technology companies have encountered;
    - The Senate Banking Committee will consider export control issues at a markup meeting next week;
    - AEA urges the Small Business Committee to support its legislative proposals aimed at correcting export control problems.

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Testimony of
R. Wayne Sayer
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before the
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Mr. Chairman, Members of the Committee, my name is R. Wayne Sayer, and I represent several small, high technology businesses on trade issues including ATEQ Corporation, a Beaverton, Oregon semiconductor manufacturer; United Epitaxial Technologies, also of Beaverton, a minority-owned producer of advanced semiconductor materials; and Presentation Technologies, Inc., a manufacturer of personal computer-based office products used to create presentation graphics. Each of these companies possesses talent and technology that effectively constitute a leading edge in world competition.

I am here today on behalf of the American Electronics Association. AEA consists of 3,250 high technology companies across America, including the companies I just mentioned. AEA is the largest trade association representing the U.S. electronics industry, and includes all segments of the industry, such as computers, telecommunications, instruments, semiconductors, and software. AEA's membership is primarily comprised of small businesses. Three-fourths of our member companies employ fewer than 250 people. The work of the Senate Small Business Committee is therefore of interest to AEA's membership.

Mr. Chairman, on behalf of AEA I want to thank you for offering the association an opportunity to appear before the committee.

THE ELECTRONICS INDUSTRY IS THE LARGEST MANUFACTURING EMPLOYER IN THE U.S.

Electronics is a vital segment of the American economy and a toolmaker that enables other industries to strengthen productivity and competitiveness. Between 1978 and 1984, the electronics industry created over a million new jobs in the U.S. Electronics now directly employs 2.5 million Americans and many more indirectly in related industries. The chart on the last page shows that the industry employs four times more people than either motor vehicles or aerospace and six times more than steel. We in the electronics industry are very proud of this contribution. We believe that it reflects the traditional preeminence of our technological innovation as well as the strong competitive posture of our industry.

There is evidence, however, that this strong competitive position is eroding. The United States' world-wide trade in electronics products has fallen from a surplus of $7.4 billion in 1980 to a deficit of $13.1 billion in 1986. Employment in the industry has remained flat since 1984.

THE U.S. MUST INCREASE EXPORTS RATHER THAN LIMIT IMPORTS

The electronics industry does not look to Congress to legislate the trade deficit away. Rather, we believe it is the responsibility of industry to compete more effectively. However, the U.S. government shapes the international economic environment in which we do business. In particular, we in industry must rely on the U.S. government to eliminate overseas barriers which restrict our access to foreign markets as well as unfair advantages which our competitors receive from their own governments.

AEA opposes the imposition of import barriers such as tariffs and quotas for the purpose of protecting any American industry. In our view, such barriers represent a surrender to foreign competition and an admission that the U.S. is second best.

Tariffs only address imports, and I will remind the committee that as a fraction of Gross National Product (GNP) imports of manufactured goods are today less than their level in 1980. However, exports have fallen even faster. Therefore, remedies to the trade imbalance should focus on promoting exports rather than limiting imports.

In particular, unnecessary export control obstacles imposed by the U.S. Government must be removed. Congress wrote a good law when it acted in 1985 to amend the Export Administration Act

(EAA). Ample authority was provided for the Executive Branch to make changes in the export control process for the benefit of national security as well as exporters. Regrettably, the intent of the 1985 Act has not been fully implemented. National security export controls continue to be administered in a way that places U.S. firms--especially small businesses--at a disadvantage in competing in Western markets.

AEA ENDORSES THE RECOMMENDATIONS OF THE NAS PANEL ON EXPORT CONTROLS

A study recently completed by a panel of the National Academy of Sciences found that export controls cost the U.S. $9.3 billion in exports each year and 188,000 jobs. This cost is primarily due to the delays experienced by exporters in obtaining permission to export from the Department of Commerce and Defense, as well as controls applied unilaterally by the U.S. government.

AEA endorses all of the recommendations of the NAS panel recently published in Balancing the National Interest: U.S. national Security Export Controls and Global Economic Competition. I am sure that the Committee is aware that the panel consisted of an impressive list of experts, including former Air Force Chief of Staff General Lew Allen, former National Security Agency Director Bobby Inman, and former Defense Secretary Melvin Laird. In addition to the recommendations, the study provides an excellent analysis, including statistical data, of the current strengths and weaknesses of the U.S. export control system. Much of the data presented in the report had not been compiled previously for Congress or the public.

To help the Committee gain a better understanding of how the export control system is presently working, I would like to present just a few of the key points mentioned in the NAS report:

- 99 percent in value of all items exported under an individual validated license (IVL) are exported to non-Soviet Bloc countries;
- 54 percent of all West-West IVL exports take longer than 30 days "in the system" to process. This does not include the additional time necessary -- often two weeks -- for applications and approved licenses to be sent to and received from the Department of Commerce;
- 99 percent of all export license applications are eventually approved;
- 52 percent of high technology companies surveyed by the NAS panel reported lost sales primarily as a consequence of export controls;
- 38 percent had existing customers express a preference for shifting to non-U.S. sources of supply to avoid entanglement in U.S. controls;

- it takes small businesses 14% longer than larger firms to receive permission from Washington to export.

The last statistic may be misleadingly low, since it is based only upon the time it takes for an export license application to be processed in Washington. It does not include the time devoted within small companies to complying with U.S. export control regulations.

As a rule, the burden of deciphering the increasing complicated export control regulations falls disproportionately heavy on small companies. This occurs because small firms must face the same regulatory obstacles to exporting as large firms, but have a smaller amount of export revenue to support the costs of compliance. In some cases, this cost is so great that small firms simply do not export and surrender overseas markets to foreign competitors.

Let me make it clear that AEA members do not wish to sell goods abroad that would benefit the military potential of the Soviet Bloc. The U.S. export control system is rightfully designed to prevent Soviet acquisition of critical items. However, U.S. firms want to compete in Western markets against comparable products that are widely available in the West.

Given these facts and other evidence received from AEA companies and the NAS report, two key conclusions can be drawn about the export control system:

1. Today's KGB "shopping list" is much shorter than the U.S. control list;
2. By placing "higher fences" around fewer items, the U.S. can better focus control resources on truly critical items and better protect our security while eliminating impediments to trade of those items already available to the East.

OMNIBUS TRADE LEGISLATION SHOULD INCLUDE REFORMS TO THE EXPORT ADMINISTRATION ACT

The statistics presented in the NAS report point to the fact that the U.S. export control system is fundamentally a paperwork exercise. Unfortunately, the exercise often causes delays in exports, lost sales, and in some cases, discourages small firms from doing business overseas. Since comparable products are available abroad in most cases, U.S. security does not benefit from these delays. I am submitting with my testimony today a case study prepared by AEA documenting specific examples of unnecessary delays and lost sales experienced by member companies. I call the committee's attention to page 11 of the report in which problems involving the complexity of export control regulations are discussed.

Mr. Chairman, next week the Banking Committee will mark up trade legislation including revisions to the Export Administration Act. It is too early to determine if the committee's action will help solve some of the problems documented in AEA's case study. I have attached with my testimony a list of proposals that AEA has submitted to the Banking Committee aimed at eliminating some of the problems documented in the case study without harming national security. AEA hopes that these provisions will enjoy the support of Small Business Committee Members when trade legislation reaches the Senate floor.

SUMMARY

In summary, Mr. Chairman, Congress wrote a good law when it amended the EAA in 1985. Unfortunately, some provisions have not been implemented as Congress intended. Small, high technology exporters continue to face unnecessary controls in attempting to compete in Western markets against comparable products. AEA urges the adoption of its legislative proposals in the omnibus trade bill.

American Electronics Association AEA

[illegible]

Export Control Recommendations -- April 21, 1987

Summary

1. DISTRIBUTION LICENSE FOR EXPORTS TO THE PRC

Permit use of a distribution-type license for certain exports to the People's Republic of China.

2. LICENSE FEES

Prohibit the Department of Commerce from requiring a fee for processing export license applications.

3. DOMESTIC SALES

Clarify the meaning of "affiliate" in section 5(a) to include commercial entities controlled by a controlled country.

4. REEXPORT CONTROLS

(a) Eliminate reexport controls on U.S. products reexported to, within or among COCOM or 5(k) countries, but provide an exception for high-level goods.

(b) Eliminate reexport controls on U.S.-origin parts and components contained in foreign products to be exported to countries other than COCOM or 5(k) when the parts and components constitute 25 percent or less in value of the product.

(c) Eliminate reexport controls on items that would not require a validated license if exported from the U.S.

5. DECONTROL OF LOW LEVEL ITEMS

(a) Extend the G-COM procedures (decontrol of technology below AEN level) for exports (and reexports) to all free world countries.

(b) For exports to COCOM and 5(k) countries, raise the G-COM level to the PRC green line level, thereby decontrolling exports of technology below this level to these countries.

6. CONTROL LIST DISPUTES

Provide time frames for resolving disputes between the Departments of Commerce and Defense relating to adding or deleting items from the control list.

7. TECHNICAL ADVISORY COMMITTEES

Strengthen the role of technical advisory committees (TACs) by requiring that TAC list review recommendations be formally presented in the list review process and by requiring a reply by the Secretary to TAC recommendations. Require TACs to review all regulations prior to publication.

8. UNILATERAL CONTROLS

Place a six month sunset on all unilateral controls. Permit renewal of controls if there is no foreign availability or if multilateral negotiations regarding such controls are in progress.

9. DISTRIBUTION LICENSE PARAMETERS

Require the Secretary to respond to industry requests to change eligibility requirements for items exported under a distribution license.

10. TRADE SHOWS

Permit the export of certain items for exhibition or demonstration at trade shows in the PRC.

11. FOREIGN AVAILABILITY

(a) Require that the uncontrolled availability of goods and technology in free world countries be sufficient ground for making a foreign availability determination.

(b) Require the Secretary of Commerce to acknowledge the receipt of foreign availability allegations from industry and publish in the Federal Register within 60 days the action the Secretary has taken on the allegation. Require specific time frames for the Secretary to make decisions.

12. REVIEW OF PRC "GREEN LINE"

Require Commerce Department to regularly review and adjust (if appropriate) PRC "green line" parameters.

13. INDUSTRY REPRESENTATIVE TO COCOM

Require that the U.S. delegation to COCOM control list meetings include as advisors representatives of U.S. industry who are knowledgeable about the items being reviewed.

14. GOODS CONTAINING MICROPROCESSORS

Clarify the existing provision in law regarding the decontrol of certain goods containing embedded microprocessors to fully implement the intent of Congress. Expand the provision to include other embedded components.

15. AGREEMENTS UNDER SECTION 5(k)

Specify that the U.S. will not enter into an agreement which requires that U.S. items be more strictly controlled than foreign products.

16. ROLE OF THE DEPARTMENT OF DEFENSE

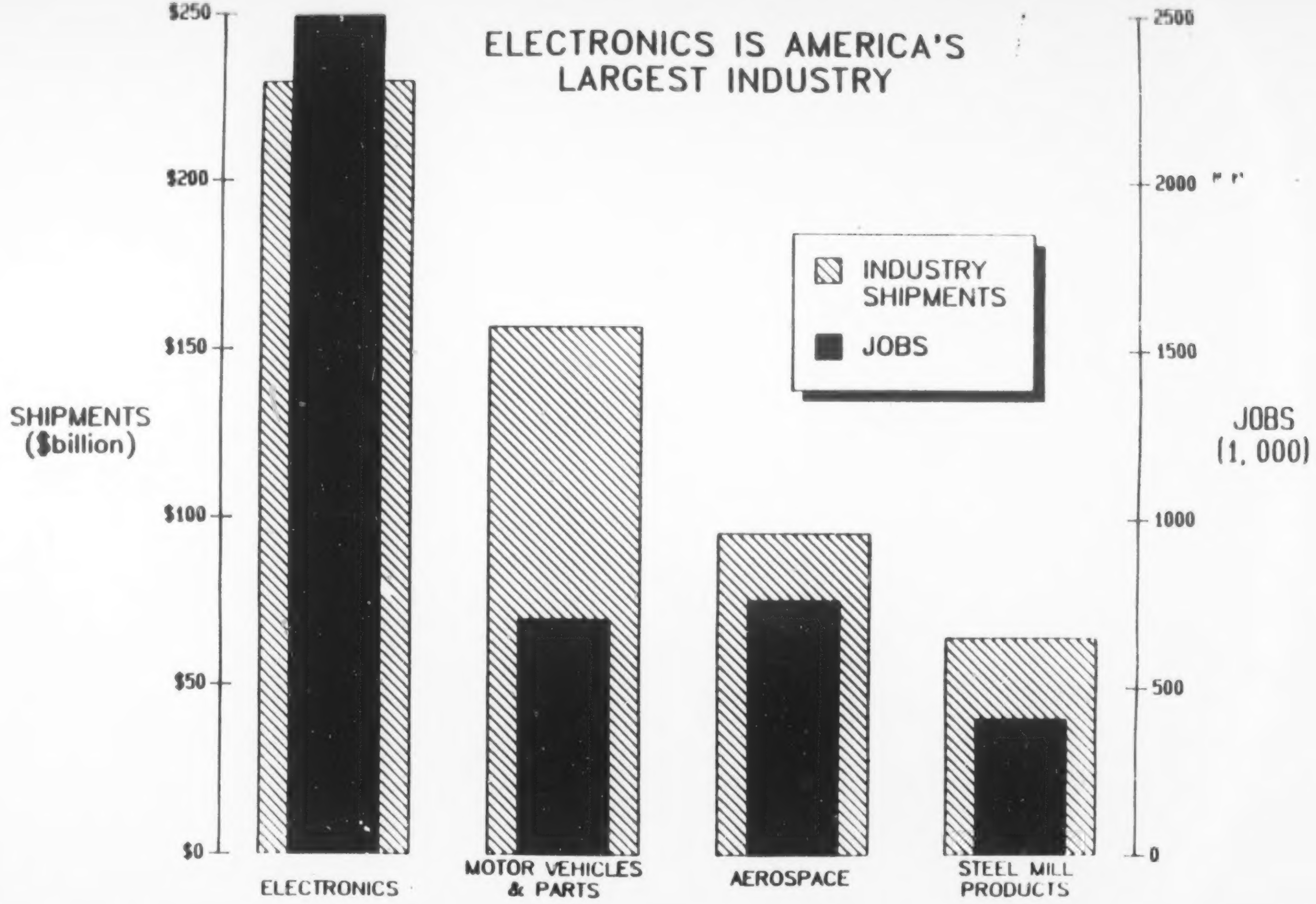
Limit the role of the Defense Department to review of applications for exports to only controlled countries. Require action by Defense within a specific time period.

17. WESTERN LICENSING OFFICE

Establish a Western regional office of the Department of Commerce for the purpose of processing certain license applications and for providing assistance to exporters, including commodity classifications.

18. FOREIGN POLICY CONTROLS/FORFEITURE/ADMINISTRATIVE PROCEDURES

Enact the provisions in section 5 through 8 in S. 547.


ELECTRONICS IS AMERICA'S LARGEST INDUSTRY
▨ INDUSTRY SHIPMENTS
■ JOBS
SHIPMENTS ($billion)
$250
$200
$150
$100
$50
$0
JOBS (1, 000)
2500
2000
1500
1000
500
0
ELECTRONICS
MOTOR VEHICLES & PARTS
AEROSPACE
STEEL MILL PRODUCTS

Senator **Harkin**. We appreciate that very much. You are going to leave that case study?

Mr. **Sayer**. Yes.

Senator **Harkin**. We will make that a part of the record.

[Material follows:]

AEA

1612 K Street N.W.
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CASE STUDY REPORT
AMERICAN ELECTRONICS ASSOCIATION
EXPORT CONTROL TASK FORCE

March 12, 1987

AMERICAN ELECTRONICS ASSOCIATION
EXPORT CONTROL TASK FORCE
Case Study Report

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March 12, 1987

EXECUTIVE SUMMARY

> "I don't consider the reform of the export control system... to be an international trade off between trade and national security. I believe the reform of the system will improve both the level of competitiveness and the level of U.S. security. This country is comprised of both economic and military security. One goes with the other."
>
> Statement by Malcolm Baldrige
> Secretary of Commerce
> February 9, 1987

U.S. export licensing practices and procedures currently limit the global competitiveness of the U.S. electronics industry. The following report sets out some examples of the types of competitive problems that American electronics companies face due to a more stringent and, at times, less efficient U.S. export control system. The export control examples contained herein are grouped into five categories: licensing delays; inconsistent and complex U.S. regulations; unilateral export controls; extraterritorial controls; and COCOM ally and foreign firm reactions to U.S. export controls.

It is hoped that the substance of this report will better inform public officials on the competitive problems firms face from current export controls and lead to legislative and administrative changes/improvements in the Export Administration Act and in the executive branch departments responsible for the implementation of export administration policy. The objective of such changes should be to minimize the competitive disadvantages that American firms now face due to the current licensing system and, at the same time maintain U.S. national security.

This report is not intended to be interpreted as critical of the executive branch departments and personnel responsible for the development and implementation of export control policy. Rather, our conclusion is that the complexity of the policies and the system make it difficult for these departments and personnel to discharge their responsibilities according to the "letter of the law."

The following report was prepared by AEA staff in Washington based on input supplied by AEA's member companies during the latter part of 1986. The 25 case studies contained herein are only a fraction of the total cases that could have been developed. Obviously, as an outside organization, it is impossible to verify the accuracy of any individual case.

However, these cases are illustrative of the types of problems consistently reported by electronics companies. Out of 25 cases, 14 different country destinations were involved and the total dollar value of lost U.S. sales abroad is estimated to be $26,648,000.

I. EXPORT LICENSE DELAYS

Currently, the Department of Commerce, on an annual average, reviews between 95,000-110,000 individual validated export license applications per year.

The electronics industry understands that the complex nature of export controls will occasionally lead to legitimate lengthy license reviews of applications that raise important policy/national security concerns. However, these applications should represent a small fraction of the total IVLs and should be occurring far less frequently than they do now.

AEA's data base indicates that far too many licensing delays take place on routine applications involving lower level technologies; or that are widely available from non U.S. sources; or that have been exported by manufacturers previously. In the international marketplace, where time often is the critical element to a sale, a license delay can often mean the difference between a penetrated overseas market and a lost sale, or a firm's reputation as a reliable supplier.

II. INCONSISTENCY AND COMPLEXITY OF US REGULATIONS

The U.S. Export Administration Regulations(EAR) are presently contained in a two-inches thick, constantly changing and growing loose leaf book. Differing interagency views over the interpretation of the regulations and the accompanying commodity control list indicate their ambiguous nature.

Smaller and medium sized firms, which often lack sufficient resources to focus on export controls, have difficulty in interpreting the regulations. The terminology used in the EAR to define parameters, often does not conform to industry terminology; the regulations are overlapping, duplicative, and unclear. Firms that are sometimes intimidated by the regulations, hire consultants and attorneys to obtain clarifications. Many firms on the other hand, choose not to export or do so incorrectly.

III. UNILATERAL EXPORT CONTROLS

Roughly seven percent of all entries on the U.S. commodity control list are unilaterally controlled by the U.S. Government. Because American manufacturers no longer have a monopoly on technology,* controls have to be on a multilateral COCOM-wide basis. Unilateral U.S. export controls are imposed in West-West trade-not just in trade with bloc countries.

AEA's case examples illustrate that when a U.S. manufacturer cannot obtain a license to ship a product overseas due to a unilaterally imposed control, there will likely be a foreign competitor who is operating under a different set of export control laws, and is more than willing to dominate in that particular market.

Eliminating many unilateral controls-those where multilateral agreement is not possible or where a unique and important U.S. capability does not exist- will promote national security because the Government will be able to focus its resources and efforts on the control of strategically important products rather than on lower level/non-critical items.

IV. EXTRATERRITORIAL CONTROLS

The United States alone among its COCOM partners, requires approval, in addition to whatever licensing the local foreign government may require, of sensitive U.S. origin products if they are to be reexported to another country--free world or proscribed.

Such reexport controls are contentious and divisive between the U.S. and its COCOM allies. Other countries view them as offensive and an invasion of national sovereignty. In effect, COCOM allies perceive the United States as attempting to impose its own export control laws and system on them.

AEA's case examples illustrate that, rather than put up with the U.S. reexport controls, firms in Western countries have begun to source parts and components from non-American suppliers. Some overseas firms are even beginning to design out American made products. Once these customers are lost, U.S. firms will find it extremely difficult to get back into these lost markets.

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* In FY 1985, 43 percent of all patents granted by the U.S. were to foreign nationals, up from 27 percent in FY 1980. This fact illustrates that the U.S. does not dominate technology development in the world today.

V. COCOM ALLY AND FOREIGN FIRM REACTION TO U.S CONTROLS

U.S. export and reexport controls remain one of the most divisive and contentious issues in relations between the U.S. and its allies. U.S. controls are viewed as: too extreme; weakening European nation's competitive capabilities; extraterritorial; more political than national security conscious; increasing allied dependence on the U.S.; and costing other countries more than the U.S.

The result is a major opportunity to strengthen genuine multilateral controls is not fully being taken advantage of, because of arguments over excessive detail. Additionally, foreign firms are designing out American made products thereby eroding the global competitiveness of that industry upon which U.S. and free world security is based-the American electronics industry.

* * *

AEA PROPOSALS FOR LICENSING IMPROVEMENTS

Outlined in the appendix section is a list of administrative and legislative proposals to improve the export control system that the American Electronics Association has presented to both the Administration and Congress.

LENGTHY U.S. LICENSE DELAYS

"Our companies cannot afford to lose a contract because of bureaucratic slowdown; bureaucratic infighting... With the passage of every day, foreign competitors gain advantage because they do not have the same restrictions we do. If a U.S. exporter cannot assure his clients that he can deliver his product reliably and in a timely fashion, he simply loses his credibility and future orders."

Statement by Malcolm Baldrige
Secretary of Commerce
February 9,1987

COMPUTER PERIPHERAL CONTROLLER BOARDS TO SPAIN

A $500,000 export license application to ship 1565A peripheral controller boards to Spain was submitted by a California corporation to the U.S. Department of Commerce in September 1985. The commodities represented a blend of latest and second generation technology; have no known military application; and are widely available from abroad- particularly in West Germany and the United Kingdom. The boards are used in civil computer applications.

In October 1985, the Commerce Department returned the application without action requesting a list of end users in Spain with complete street addresses. The applicant responded the same month that eight controller boards were to be used for demonstration purposes at a trade fair, some as capital equipment and some for resale. The firm also indicated that it must ship by October 30, 1985 or the customer would cancel the order.

In December 1985, a license was finally granted. This was futile since the customer, in living up to its threat, had cancelled the $500,000 order and subsequently purchased the equipment from a foreign competitor. The U.S. firm has projected that $75,000-$100,000 in subsequent annual orders were not placed with the firm by the Spanish customer because it had developed the reputation as an unreliable supplier.

SEMICONDUCTOR MANUFACTURING EQUIPMENT TO HONG KONG

In June 1984, a U.S. company located in California submitted a $525,000 application to export semiconductor manufacturing equipment to Hong Kong. This equipment represented 6-7 year old technology. The U.S. Government in January 1985, expressed concern about possible PRC ownership of the end user in Hong Kong. In March 1985, the end user had placed its order with a Japanese competitor who delivered the product in April 1985. In the meantime, the U.S. Government had lost the U.S. firm's application.

The firm estimates that, as a direct result of this particular lost sale which has crippled its credibility, at least $2.5 million in subsequent orders were lost over the past two years. The firm estimates that its Hong Kong marketshare has decreased as well to Japanese and Leichtenstein competitors due to its tarnished reputation.

TECHNOLOGY TRANSFER TO THE PRC

In February 1985, an Indiana firm, Wavetek, Inc., negotiated a $520,000 licensing venture with the People's Republic of China to manufacture/light assembly in the PRC ECCN 1531 RF signal generators which represented 10 year old technology. These particular signal generators are widely available from abroad including the Soviet Union and are used in commercial communications. During the next 11 months the firm made two trips to the PRC, two trips to Washington, D.C., made numerous phone calls and hired a consultant to monitor the application.

In January 1986, the firm was notified that the Government had lost the application. A duplicate application was resubmitted and a final license was granted in April 1986. However, because the Chinese, instituted a change in policy with respect to such ventures in March 1986, the PRC cancelled the contract.

The U.S. firm had spent $40-50 thousand over the course of the 13 months that the application was under review to sufficiently monitor the application and keep the Chinese from cancelling the deal. This included trips to China and Washington, telephone calls, telexes, retainers for attorneys, consultant's fees and general administrative staff time.

EARTHQUAKE SIMULATOR SYSTEM TO ROMANIA

In July 1985, MTS Systems Corporation, a Minnesota firm, submitted a $1.8 million export license application to ship an ECCN 1565A earthquake simulator system to Romania after having been given an initial indication by the Department of Commerce that the sale would likely be approved. The Romanians expressed an interest in the equipment as a result of an earthquake they had in the mid-1970's. The equipment is used in testing and simulating the strength of buildings during earthquake conditions.

In September 1985, Defense recommended denial of the application and would not provide MTS with a clear reason for the denial.

Two MTS managers and legal counsel went to Washington to meet with the various licensing officers. While the firm received no conclusive reason for the denial, the firm was told to write a rebuttal letter indicating the peaceful uses of the system. Upon doing this, a license was issued in February 1986 with a 45 day non-validity period. As such, actual date of validity was pushed to April 15, 1986.

COMPUTER PROTOCOL CONVERTERS TO SINGAPORE

February 1986, Local Data, a company located in Northern California, applied for a license to ship 250 1565A protocol converters to Singapore. The converters are to be used for interfacing ASCII terminals to IBM small frame and mainframe networks. In late April 1986, the U.S. expressed concern that this equipment could be reexported to the Eastern Bloc by the foreign consignee. In response, Local Data made known to the Departments of Commerce and Defense that the foreign consignee was already an approved and current consignee on other American firm's distribution licenses for the same commodities. In addition, Local Data submitted the foreign consignee's customer lists and his customer's letter of assurance. Moreover, this product is useless without the IBM mainframe computer which would have already been exported, delivered and installed.

After lengthy delays and requests for additional information the license was granted in mid-June 1986.

The entire four month process cost for this application alone was between $3,500-$4,000 in monitoring costs, phone calls, staff time and mail correspondence.

COMPONENTS AND TECHNICAL DATA TO EAST GERMANY

In October 1985, a Minnesota firm applied for a license to ship technical data and electronic components worth $490,000 to East Germany. The data and equipment, representing 10 year old technology, was to enable the end user to repair printed circuit boards for $10,000,000 worth of process automation equipment that the U.S. firm had sold to the customer over the last 10 years. Since the data and parts are product specific, they were not widely available from abroad.

After a zigzag license review pattern, a lost application and misplaced paperwork, the license was approved in September 1986--11 months after the date of original application.

The firm estimates that the delay had cost $5,000 in administrative staff time, telephone calls, and telexes. In addition, it has damaged the firm's reputation as a reliable supplier. The customer has stated that it fears doing further business with the company due to the difficulties in getting adequate servicing of products it previously purchased.

INTEGRATED CIRCUITS TO PRC

In August 1986, a Northern California firm, in breaking into the Chinese market, applied for a license to ship 1564A integrated circuits (latest generation technology) to the People's Republic of China. It was the firm's second shipment to the PRC. Such equipment has been supplied to the Chinese before and was to be used in civil applications. The Chinese made it clear that this shipment was a test to determine the U.S. companies' reliability as a supplier.

During December 1986, a status call was made to the Department of Commerce whereupon the reviewing licensing officer picked up the case and determined that it had to be reviewed by COCOM.

The case remains under review--nearly five months after the time of original application.

While the Chinese have not yet threatened to cancel the order, the firm's reliability as a supplier for any commodity is diminishing each day that a license is not issued.

INCONSISTENCY AND COMPLEXITY OF THE EXPORT ADMINISTRATION REGULATIONS

"The U.S. Export Administration Regulations are presently contained in a two inches thick, constantly growing loose leaf book. Only licensing specialists can understand and contend with these lengthy, overly complex regulations. As a result, many smaller and middle sized U.S. firms simply do not consider exporting to be a worthwhile activity or else, in ignorance, do so imperfectly. And if U.S. firms have difficulty, consider how much more difficult it is for customers and others outside the United States who have a vital role in the control process to understand and comply. To make matters worse, U.S. and COCOM licensing officers have difficulties in understanding and applying regulations, leading as in the case of too lengthy and complex controls, to licensing delays and inefficiencies in reaching decisions."

Statement of Thomas A. Christiansen
Manager, International Trade Relations
Hewlett-Packard Company
Before the
House Foreign Affairs Subcommittee
April 10, 1986

SPARE PARTS TO INDIA

In June 1985, MTS Systems Corporation, a Minnesota company, applied for an export license to ship ECCN 1568A computer interfaces to India to be used as spare parts in an automated test system that MTS had sold to India under a validated license in September, 1982. The overall system is commercially used to evaluate alloys and has no direct military application. Because of their age, the spares, representing 11 year old technology, are not available from abroad.

In July 1986, the Department of Commerce denied the application on the grounds that India has not signed the nuclear non-proliferation treaty.

Because the firm had shipped the entire automated test system under a validated export license in 1982, it believed there would not be any problems in obtaining a license for the spares. Therefore, the firm had gone ahead and manufactured the order(due to the age of the spares the manufacturing process had to be developed again at great cost.

As results of DoC action, the $13,000 order will be cancelled, the firm will not be able to dispose of the obsolescent spares, the firm is viewed as an unreliable supplier because it cannot service a commodity it previously supplied, and the total company loss is documented at $25,000-$30,000.

AMERICAN FIRM DISCOURAGEMENT

Physical Acoustics Corporation (a New Jersey firm), in pursuing international markets, has decided not to promote a certain product line that contains hard disks. The product, acoustic emission systems are classified as ECCN 1565A and represent 5 year old, widely available technology.

The firm has concluded that the expected costs and resources required to the firm to obtain export licenses for this product line were such to preclude it from aggressively marketing the product overseas. In the meantime, overseas competitors in the United Kingdom, West Germany and Japan have successfully marketed similar products throughout the world.

WAVEGUIDE FILTERS TO SWEDEN

In September 1986, Gamma-F Corporation applied for an export license to ship ECCN 1537A waveguide filters worth $36,790 to Sweden. This equipment, which represents 5 year-old technology, will be used in a radar system for the Brazilian Armed Forces. The manufacturer in Sweden has indicated that the Department of State has granted other U.S. suppliers licenses to ship similar, if not more complex equipment, to the same end users in Brazil. The filters are also widely available from abroad, particularly the United Kingdom.

Upon checking the status of the application, Gamma-F was told the application had been lost. A re-application was made in October 1986. Checks on the status of the original application during November revealed that the Department of State had lost the application. The Department of Defense, at the same time, was telling the firm that it had the application.

Between November and December, the Departments of State and Defense could not agree who had the application. On December 9, the Department of Defense, via telephone, indicated that a license would not be granted.

In mid-December, a license for the shipment arrived at Gamma-F. A week later, shipment was made to Sweden. At the end of December, the same person who had approved the license at the Department of State called to tell Gamma-F that the license was suspended and that the reason for the suspension would be forthcoming in a subsequent letter. State was told that the goods had already been shipped upon receipt of the license. A letter received January 9, merely stated that the license was suspended and to return the license if the goods had not been shipped. On January 15, however, Gamma-F received a telex from the Washington representative of the Swedish manufacturer stating that the suspension had been revoked and license approved as of December 15, 1986. No further communication had been received by Gamma-F from State as of February 2, 1987.

COMMODITY CLASSIFICATION PROBLEM

The U.S. Government has ruled that most printers for computers, impact and non-impact, are decontrolled items and may be exported under general license G-DEST, ECCN 6599G. Certain spare parts for these printers, however, are controlled and must be licensed under ECCNs 1564A or 1565A. Examples of such products include circuit card assemblies such as power supply boards, voltage regulator and rectifier boards. All are typically designed exclusively for a given printer and have no dual use (military) applications.

As such, exports of spare circuit card assemblies to service commodities previously exported, require a separate individual validated license. Rather than deal with the long lead time required to obtain such licenses, many end users have resorted to buying extra printers (G-DEST) which are then cannibalized for the spare parts. Because this is a very expensive procedure for procuring spare parts, customers have an incentive to switch their business to other countries.

COMMODITY INTERPRETATION PROBLEMS

Laser printers have been decontrolled by the U.S. Government and may be exported under general license G-DEST, ECCN 6599G. Such products consist of two parts: a print engine and electronics. Without the electronics the print engine cannot interpret the instructions from the main computer and therefore can only print test patterns. U.S. companies cannot obtain a final decision as to whether the present engine is decontrolled or controlled as a printer (ECCN 1565A) or laser (1522A). As a result, if an overseas customer wants to purchase only the print engine and develop the electronics himself, the customer must obtain an individual validated export license. If time is a major consideration, the customer can purchase the entire printer at a higher cost than for the purchase of the engine itself and thus not have to obtain an export license.

SPECTROMETER TO THE EAST BLOC

In June 1983, a Northern California firm submitted an export license application to ship a spectrometer with two broadband probes, 1 M-byte memory expansion, an array processor, and two-30 M byte Winchester disks to the Eastern Bloc. In November 1983, the Government recommended denial of the $485,000 application. The firm, instead of being granted a rejection, requested that the application be returned without action. The Government stated that the firm could not ship the system, which was to be used in the analysis of organic and chemical compounds, with the array processor or the Winchester Disk.

From January to April 1984, the firm attempted to deal with the concerns raised by DOD. First, the company stated it could, but with great reluctance, eliminate user programmability. The problem here was that its equipment would not be competitive with a West German competitor's system!

Second, in April 1984, the company sought and found a DOD acceptable disk that, with some R&D, could be made somewhat compatible with the system. The odd point here was that the proposed disk was faster and had considerably more capacity than the Winchester that the firm sold as standard with its system!

In May, 1984 the company learned that the array processor (and therefore user programmability)could be exported to the East Bloc. In response, the firm submitted another application for a spectrometer with an array processor, a printer, a plotter and a disk.

In November, 1984 the firm learned that Winchester disks could be exported to the East Bloc. It submitted the required amendment and a final license was granted in May, 1985 nearly two years after the date of original application!

Luckily, the firm was able to maintain the buyer's interest throughout the process and completed the sale. However, the firm estimates its overall expenses to comply with inconsistent U.S. licensing concerns at $10,000.

SPARE PARTS TO IRAQ

On May 8, 1985, Branson/IPC, a Northern California firm, applied for an export license to ship spare parts for an ECCN 1355A plasma etching system it had previously exported to Iraq under a validated license. The spares represent 8 year old technology, have no known military application and will be incorporated into a system for civil application that, if exported today, would not require a validated license.

The end user is not listed in the Table of Denial Orders and has a dependable record as a reliable end user. The U.S. Government has approved exports of the same commodity to the same ultimate consignee in the past. The license application is still pending as of 3/1/87.

COMMODITY CLASSIFICATION PROBLEM

Identix Incorporated, located in Northern California, manufactures an electronic security unit to prevent access by unauthorized persons to commercial and private property. The unit is a physical protection device that validates a request for entry by a mathematical comparison of the individual's actual finger print with a pre-recorded characterization of the same finger. The unit is classified as ECCN 5597B.

The criterion for an item falling under 5597B is that it be used in crime control, investigative and/or law enforcement purposes. Identix believes that the product is not and cannot be used in either capacity. Despite the firm's repeated appeals to remove the classification, the Government has insisted that the product remain classified as ECCN 5597B and therefore controlled for export.

As a result, Identix is required to obtain a validated export license to supply this commodity to free world destinations for civil end use applications. On average, such applications have been taking 3 months for the Government to process.

UNILATERAL U.S. EXPORT CONTROLS

"The United States is no longer as dominant as it once was in many dual use technologies. There are Western industrialized countries--Japan, for example--whose product and manufacturing technology are equal to our own or lead the world. In addition, dual use technology is diffusing very rapidly. The newly industrializing countries are a case in point--e.g., South Korea and Taiwan--now have the capability to manufacture dual use items which, in some cases, exceed Soviet technical capabilities...in selected areas, their manufacturing capability is now...at a point where they are alternative sources of the technology that the Soviets are seeking"

Statement of Lew Allen, Jr.
Chairman, National Academy of Sciences
Panel on Technology Transfer
Before the
House Subcommittee on International Trade
February 3, 1987

"When a U.S. manufacturer cannot obtain a license to export an item abroad due to a unilaterally imposed control, there will likely be a foreign competitor who is operating under a different set of export control restrictions, and is more than willing to take control of that particular market."

J. Richard Iverson
President
American Electronics Association

EXPORT LICENSE FOR EXPO HI-TECH '86 TRADE SHOW
Shanghai, Peoples Republic of China

In June 1986, a California electronics firm submitted an export license application to demonstrate ECCN 1519A digital optical transmitters and receivers at the EXPO HI-TECH '86 Trade Show in Shanghai, PRC. This latest generation commercial technology is widely available worldwide, particularly in Japan, West Germany and the United Kingdom. Any telecommunications or data communications systems that use optical fibers incorporate these types of transmitters and receivers. There are now several such systems in operation in the PRC.

The license was denied on national security grounds in October 1986. As a result, the American firm could not participate in the highly successful trade show in which competing American and Japanese firms had demonstrated similar electro-optical products. The competing firms in attendance were documented as having concluded $4-5 million worth of business.

Not only did the firm lose the potential sale of its demonstrated product worth $93,000, but lost uncalculable future business because it did not get the product or firm exposure it believes is required to penetrate and compete in the PRC market. Moreover, the firm spent and lost $10,000 in administrative costs in its effort to obtain the necessary license to participate.

The firm projects that it will have to spend over two years and $60,000 to regain the competitive edge lost to its competitors.

NOISE MEASUREMENT TESTING EQUIPMENT TO THE PRC

In July 1986, an Ohio corporation applied for a license to ship ECCN 6599G noise measurement testing equipment (with an associated ECCN 1565A computer controller that fell within PRC green zone) to the People's Republic of China. The firm asked that its application be treated expeditiously due to a foreign competitor in West Germany who had promised that his product would not be subject to any license delays.

The case was exchanged between the DOC and DOD several times, and had to be retrieved after being inadvertently sent to COCOM. Subsequently, various Government officials indicated that the case never should have been referred either to DOD or COCOM in the first place.

The license was finally granted in February 1987, but as if this writing, it is uncertain if the Chinese still honor the contract.

Not only can the firm lose the $300,000 order, but it can lose $5,000-$7,000 invested to obtain the sale. Moreover, while extremely difficult to gage, its reputation with the customer as a reliable supplier has been severely damaged.

PLASMA ETCHING SYSTEMS TO THE PRC

Since January 1984, many U.S. semiconductor manufacturing equipment firms have made numerous attempts to obtain licenses to export their single wafer plasma etching systems to the PRC. Such systems are used in the commercial semiconductor manufacturing process. The Government, according to the Export Administration Regulations, will allow batch and barrel etching systems to the PRC but prohibits export of single wafer etching systems to China. However, technical experts conclude that there is no real functional difference between the two systems.

Batch systems, which are currently used in the manufacture of the most sophisticated devices under development and production (including very high speed integrated circuit device) now hold 50 percent of the worldwide market. This indicates that batch systems, which are excluded from the EAR, are being purchased worldwide as state of the art equipment and single wafer systems are being controlled.

Moreover, COCOM allies (namely the United Kingdom, France, and Japan) are delivering late model etch equipment to China which is technically equivalent to U.S. single wafer systems. It has even been determined that the United Kingdom has shipped batch wafer equipment to the Soviet Union.

As a result, industry sources estimate that during the last three years, U.S. manufacturers of plasma etching equipment lost $10,775,000 in international business to foreign competitors who are not subject to the same export licensing practices and procedures as U.S. firms.

SPECTROMETER TO CZECHOSLOVAKIA

In May 1985, a California company sought to market a 1565A spectrometer, representing 6-7 year old technology, in Czechoslovakia. The spectrometer would be used by Czechoslovakian R and D facilities engaged in civil research to analyze organic and chemical compounds. Mindful of U.S. export controls, the potential Czech customer raised concerns about the likelihood of the firm receiving an export license.

To inquire about export controls of other countries, the Czech customer sent a telex to a West German competitor asking whether their spectrometers fall under COCOM control. The West German competitor responded that the transaction would not fall under COCOM regulations if the Czech end user ordered the instruments from the foreign competitor's affiliate in Switzerland.

The Czech customer placed its order with the Swiss affiliate who delivered the $475,000 order in December 1985. As a result, the firm has lost Czechoslovakian marketshare to its major West German competitor.

ELECTRON BEAM SYSTEM PROJECTION MASK ALIGNMENT SYSTEM TO HONG KONG

Knowing of the government's concerns about semiconductor manufacturing equipment, Perkin-Elmer Corporation, in June 1985, sought and obtained the Department of Commerce's opinion on shipping 1355A Electron Beam and Projection Mask Alignment Systems to three end users in Hong Kong.

The Department of Commerce stated that possibility of diversion through the anticipated consignees existed. The firm further recognized that there was significant government reticence to provide assurances for prompt processing of its license applications. As a result of these findings, the firm decided not to market its products in Hong Kong because it felt that it could not obtain the required licenses.

Based upon subsequent on-site customer visitations with the proposed end users, other potential customers, and information received from company contacts in the region, Perkin-Elmer has projected from July 1985 to June 1986, that it has lost $11,000,000 in business to Japanese competitors who have allowed the export of such commodities to Hong Kong.

DECREASED BLOC MARKETSHARE TO COCOM COMPETITORS

In mid-1979, MTS Systems Corporation had applied for and received export licenses to ship ECCN 1565A generalized test equipment to the Soviet Union. In December 1979, while having $2.5 million in Soviet orders in process, the Carter Administration revoked all MTS' export license applications to the Soviets. Over the next 6 years MTS managed to gain license approval for the equipment already in process at the time of the embargo. These approvals occurred in fits and starts thus giving MTS the perception that there were no guarantees in doing business with the Eastern Bloc because of the uncertainty of the licensing process.

Due to this situation, MTS management, rather than financially expose its company to the unpredictability of the export license process, decided to eliminate 97% of its marketing efforts to the Soviet Union and Eastern Bloc. As a result, COCOM competitors quickly filled the vacuum (United Kingdom/West Germany). This was confirmed by customers at an MTS sponsored trade show in Moscow.

This non-competitive situation has allowed MTS' main competitor in West Germany to achieve exceptional profit margins in the USSR and use these profits to help promote sales in other parts of the world where MTS is active. A report from a customer in China stated that MTS lost a large earthquake simulator sale to Schenck in 1981 due to a low price. The lower price was due to profits derived in the Soviet Union.

Moreover, from 1975 until 1980, MTS Systems Corporation held a predominant market position in the USSR/Eastern Bloc Countries. MTS in 1979 went from a high of 12% of sales in the USSR/Bloc to a low of 0% in 1982 with a slight recovery to 1 or 2 percent in 1985-1986. MTS' sales average in the 1975-1979 period was approximately $5 million per year with MTS estimated to have 65% of the market and Schenck, the major West German competitor, estimated to have about 20%. In the 1980-1983 period, the average was less than $400,000 per year or a 90% reduction. MTS's old customers have stated that Schenck has taken its place in the market.

The end result is the Soviets were not denied comparable systems and that MTS's market share has declined in the USSR and Eastern Bloc.

PLASMA ETCHING SYSTEMS TO THE PRC

On December 18, 1984, Branson/IPC which is located in California, applied for two export licenses to market 1355A plasma etching systems to the People's Republic of China. The systems represent 8 year old technology, are widely available from Japan, United Kingdom, France and the Soviet Union and are used in the commercial semiconductor manufacturing process. Several such systems are now in operation in the PRC.

After several "RWA's" (returned without action), the license applications were approved with conditions by the U.S. Government and are now under COCOM review. However, the Chinese are now threatening to cancel the order.

The firm has documented spending $70,000 to adequately monitor the applications over the past two years. This includes trips to China, Washington, technical presentations, administrative costs and phone calls.

CONTROLLERS TO JAPAN/SOVIET UNION

In July 1986, Universal Instruments Corporation, located in upstate New York, applied for a reexport license to ship $1,009,309 worth of ECCN 1565A television set controllers from a Japanese distributor to the Soviet Union. These controllers represent 6-7 year old technology, are to be used in color television sets, are widely available from the United Kingdom, France, West Germany, Italy, Sweden and Japan, and have no direct military application. Moreover, this sale represents a potential of $4,500,000 in additional sales over 1987.

Because this application was a reexport of American-made products from Japan, both the U.S. and Japanese firms had to apply to their local governments for licenses. The Japanese distributor received its export license while the U.S., in November 1986, denied the American firm's reexport request due to "derogatory information with regard to the Soviet end user". Presumably, both Japan and the United States abide by the same COCOM rules regarding exports to the Soviets.

Although Universal has filed an appeal with the Department of Commerce, the firm stands to lose the initial $1,000,000 sale; lose the $4,500,000 in future sales and ruin its relationship with its Japanese distributor.

EXTRATERRITORIAL U.S. EXPORT CONTROLS

"The vigor with which U.S. re-export regulations are now being imposed, together with a plethora of in-house controls and audits; the risk of inadvertent non-compliance and possible cessation of supply from the U.S. source, have all contributed toward a close reevaluation of our purchasing strategy...With the foregoing in mind, our purchasing policy is to select from U.K. or European suppliers wherever possible and all other things being equal i.e, adequate technical performance and price. Consideration is also being given to Japanese equipment."

T. Nicholson
U.S. Export Control Administrator
British Aerospace Ltd.

CUSTOM INTEGRATED CIRCUIT TO SWITZERLAND

In December 1984, International Microelectronic Products (IMP), a Northern California firm, was awarded a contract by a major Swiss company to develop a basic custom integrated circuit classified under ECCN 1564A. The technology, not the latest generation, was a minor modification to the basic IMP wafer fabrication process and is widely available from abroad. The end product was to be an energy management system for industrial and predominately residential applications.

The initial contract was for $30,000. Subject to successful development of the above modification, a second award worth $30,000 would follow. Following prototype delivery, the customer expected to place production orders for IMP to manufacture the custom circuit in volume. The initial year's production effort was valued at $1,000,000 with future production valued at $3,000,000-$4,000,000 per annum.

In conformance with U.S. export regulations, IMP requested that the customer execute a letter of assurance whereby the customer would certify that no technical data would be made available to specifically identified Eastern Bloc countries.

The Swiss company refused to sign such a certification.

The Swiss company cancelled the IMP order and placed it instead with another Western European semiconductor company.

British Aerospace
PUBLIC LIMITED COMPANY

ARMY WEAPONS DIVISION

P O Box 19, Six Hills Way
Stevenage
Hertfordshire SG1 2DA

Telephone Stevenage (0438) 312422
Telex 825125 6
Ext. 2037

11th. July 1986

Dear Sirs,

Subject: U.S. EXPORT CONTROL

Further to our meeting and subsequent telephone discussions this note is to confirm our views in respect of U.S. re-export control.

Like many other companies British Aerospace is sympathetic to the stated U.S. goal of denying the Soviet bloc, and certain other countries, access to strategic goods and technology. The U.K. Export Regulations and the operation of COCOM are both mechanisms by which the U.K. Government achieves the same common goal.

The imposition of U.S. re-export control is an unwelcome and significant burden which may have the effect of restricting our competitiveness and speed of response in overseas markets.

For many years U.K. end users and manufacturers have enjoyed a strong meaningful relationship with suppliers of U.S. equipment and technology. Both parties have derived benefit from a trading relationship free of any extra territorial restrictions.

It is without doubt the wish of British Aerospace that such a relationship should continue 'ad infinitum'.

The vigour with which U.S. re-export regulations are now being imposed, together with the plethora of in-house controls and audits; the risk of inadvertent non-compliance and possible cessation of supply from the U.S. source, have all contributed towards a close re-evaluation of our purchasing strategy.

You will appreciate that like any manufacturing based organisation we wish to eliminate, as far as is practicable and possible, any risk to our supply lines for bought-out material, components and equipment. The U.S. re-export controls represent one such risk.

- continued -

With the foregoing in mind our purchasing policy is to select from U.K. or European suppliers wherever possible and all other things being equal i.e. adequate technical performance and price.
Consideration is being also given to Japanese equipments.

Of course, where no technical alternative is available then goods of U.S. origin will be procured and BAe. will ensure full compliance with both the written word and spirit of U.S. Re-Export Regulations.

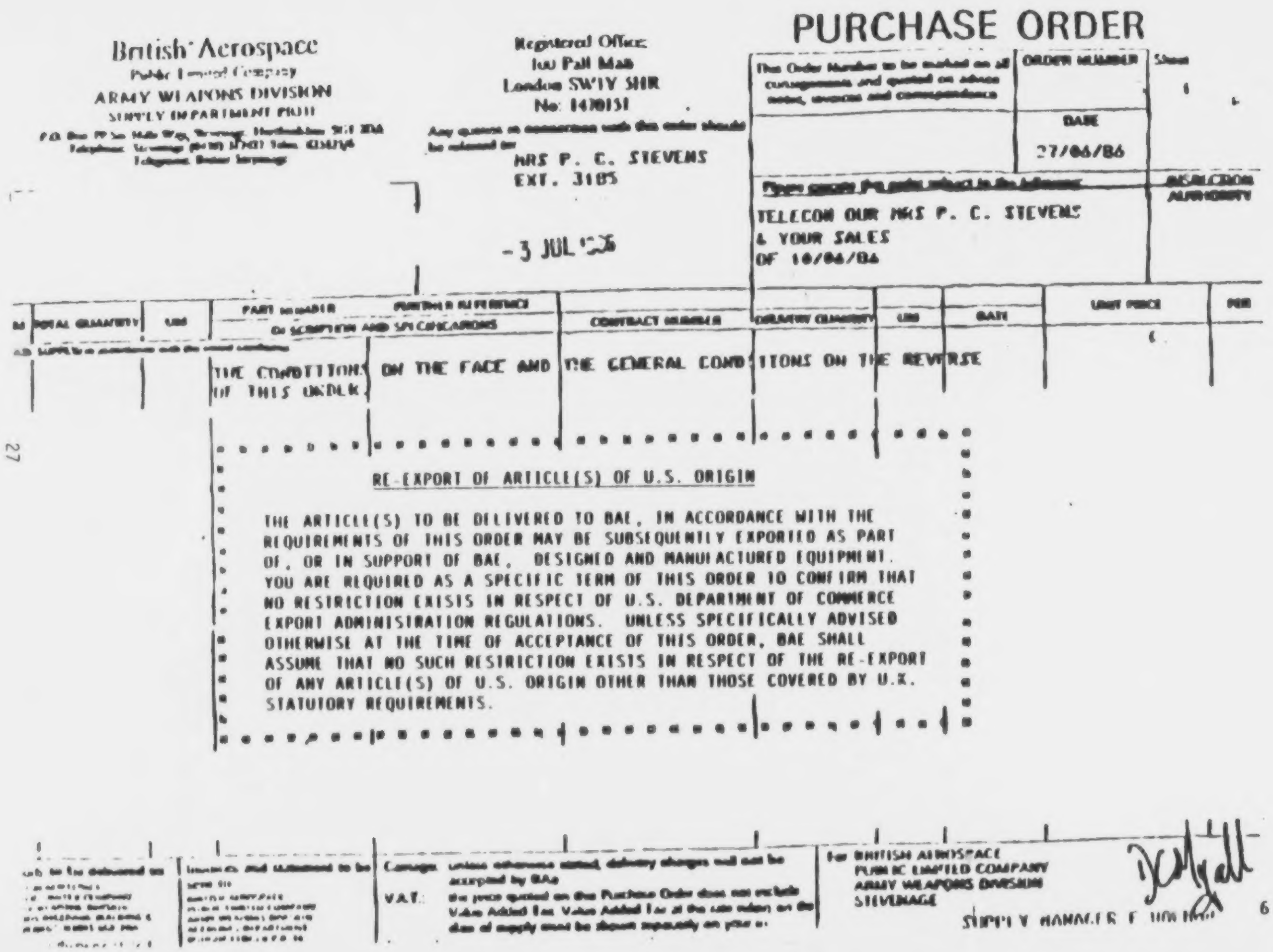
I do hope this is not misconstrued as being anti U.S. However, I am sure that you will fully appreciate our desire, and need, to maintain an unfettered right and ability to export equipment manufactured by British Aerospace and to maintain secure lines of supply.

Your recent assistance in establishing British Aerospace as a Foreign Consignee is very much appreciated. I look forward to confirmation that the application was successful.

Yours sincerely,

T. Nicholson
U.S. Export Control Administrator

11th. July 1986



British Aerospace
Public Limited Company
ARMY WEAPONS DIVISION
SUPPLY DEPARTMENT PROD
P.O. Box [illegible] Stevenage, Hertfordshire [illegible]
Telephone: Stevenage [illegible] Telex: [illegible]
Telegrams: [illegible] Stevenage

Registered Office:
100 Pall Mall
London SW1Y 5HR
No: 1470151

Any queries in connection with this order should be referred to:
MRS P. C. STEVENS
EXT. 3185

- 3 JUL 1986

PURCHASE ORDER

This Order Number to be marked on all consignments and quoted on advice notes, invoices and correspondence	ORDER NUMBER	Sheet 1
	DATE 27/06/86	
Please execute the order subject to the following: TELECOM OUR MRS P. C. STEVENS & YOUR SALES OF 10/06/86		RESERVATION AUTHORITY

TOTAL QUANTITY	UM	PART NUMBER / DESCRIPTION AND SPECIFICATIONS	PURCHASER REFERENCE	CONTRACT NUMBER	DELIVERY QUANTITY	UM	DATE	UNIT PRICE	PER
		THE CONDITIONS OF THIS ORDER	ON THE FACE AND	THE GENERAL CONDITIONS ON THE REVERSE				£	

RE-EXPORT OF ARTICLE(S) OF U.S. ORIGIN

THE ARTICLE(S) TO BE DELIVERED TO BAE, IN ACCORDANCE WITH THE REQUIREMENTS OF THIS ORDER MAY BE SUBSEQUENTLY EXPORTED AS PART OF, OR IN SUPPORT OF BAE, DESIGNED AND MANUFACTURED EQUIPMENT. YOU ARE REQUIRED AS A SPECIFIC TERM OF THIS ORDER TO CONFIRM THAT NO RESTRICTION EXISTS IN RESPECT OF U.S. DEPARTMENT OF COMMERCE EXPORT ADMINISTRATION REGULATIONS. UNLESS SPECIFICALLY ADVISED OTHERWISE AT THE TIME OF ACCEPTANCE OF THIS ORDER, BAE SHALL ASSUME THAT NO SUCH RESTRICTION EXISTS IN RESPECT OF THE RE-EXPORT OF ANY ARTICLE(S) OF U.S. ORIGIN OTHER THAN THOSE COVERED BY U.K. STATUTORY REQUIREMENTS.

27

Goods to be delivered to: [illegible]

Invoices and statements to be sent to: [illegible]

Carriage: unless otherwise stated, delivery charges will not be accepted by BAe

V.A.T.: the price quoted on this Purchase Order does not include Value Added Tax. Value Added Tax at the rate ruling on the date of supply must be shown separately on your invoice.

For BRITISH AEROSPACE
PUBLIC LIMITED COMPANY
ARMY WEAPONS DIVISION
STEVENAGE

SUPPLY MANAGER F. [illegible]

6

SEYCO

74A GLENTHAM ROAD, LONDON SW13 9JJ, ENGLAND Telephone 01-748 8226 Telex 934448 SEYCO G

RECEIVED
DEC 29 1986
GAMMA-F

Gamma-f Corporation
3111 Fujita Street
Torrance
CA. 90505
USA

18th December 1986

For the attn. of Carlton B. Goss.

Dear Carl,

Subject : Delays in obtaining U.S. Export Licences.

We can confirm that present U.S. State Department Export Control Regulations are making it more difficult for us to sell U.S. Electronics and Microwave products in the U,K.

Since we have been selling these products for 10 years working with the same U.S. suppliers, we can make a valid comparison of before and after the regulations were introduced.

These difficulties extend beyond slipped delivery dates caused by late licences. This is a list of reasons why the regulations are reducing acceptance of U.S. products -

1) Late deliveries

An obvious first-order effect. Customers are very sensitive to anything which delays their ability to deliver systems to their customers. This can even put them into penalty conditions. All else being equal, they will go to a supplier that does not have this built-in disadvantage.

2) End-user limitations affecting freedom to supply or export

System manufacturers in the U.K. do not want restrictions on the customers to which they can sell or exportability of their equipment. Since one U.S. component in a system could mean they lose this freedom, they will choose components which do not have strings attached.

3) Loss of commercial confidentiality

Most of our customers, working as they are in a competitive market, do not like giving details of their customers to third parties. They prefer suppliers who do not ask such questions.

cont -

4) More administration / paperwork

The regulations require traceability, records and subjection to audit. If these can be avoided by using alternative sources, then our customers will choose that route.

5) Emotional reaction

'Over-policeing' has produced an emotional reaction e.g. 'U.S. Imperialism', 'an endeavour to enforce domestic U.S. regulations on a free International market', 'why should they tell us what we can and cannot do' etc.

We would also add these opinions of our own -

1) The Technology Gap - does it exist ?

If the U.S. had a significant technology lead over W. European manufacturers, then our customers would have to bite on the bullet and go on buying U.S. However, W. European manufacturers can produce hi-technology components but were either lazy, or unwilling to make capital investment, or disorganized and, anyway, it was easy just to buy components from the U.S.

The effect of the U.S. export regulations has been to stimulate W. European components manufacturers. We can give you examples, viz

(a) In the last 2 years, four U.K. and one U.S. supplier have started solid-state amplifier manufacturing in the U.K. There were none (besides in-house) before that.

(b) At least 50% of all high power travelling-wave tubes used in the U.K. were U.S. supplied. Within the last 2 years this had dropped to 20%. The capacity and capability of the U.K. manufacturer has increased accordingly.

2) Too many products covered by the U.S. Regulations

It is apparent, even from this distance, that, probably because of a lack of specialist knowledge in U.S. Government Depts, very ordinary components are becoming subject to regulation. It is embarrasing and makes us all look ridiculous to ask a customer for end-use / end-user details on a piece of waveguide, a switch, a spare circuit board.

3) Is this the best way of acheiving what we set out to do ?

No-one here is arguing against the objective of limiting leakage of W. Block technology to the Eastern Bloc. But surely a better way is to seek the co-operation of the W. European trading area, rather than to attempt to administer it ?

Kind regards,

Malcolm Duncan

Malcolm Duncan.
Managing Director.

JAN-19-'87 09:55 T-GAMMA-F 213-553-7463 #025-02 202659021 .

RECEIVED
JAN 19 1987
GAMMA-F

RECEIVED
[illegible]
GAMMA-F

Translation

Letter from: ANT Nachrichtentechnik GmbH,
Gerberstr. 33, D 7150 Backnang

to: Parzich GmbH, Mr. Ekkehard Parzich,
Karwendelstr. 8, D 8911 Pürgen

date: January 15, 1987

Dear Mr. Parzich,

we thank you for sending us the letter of gamma-f Corp.

We as manufacturer of highly qualified communication equipment are affected twice by the tightening up of the US export control regulations.

Firstly, procurements of US-components are impeded by the troublesome application processing in the States, and, secondly, the exportation of our own products containing US-components could be made more difficult or even prevented.

Usually, a non-American company can obtain a re-exportation license only if it is represented by an agent or lawyer resident in the USA.

It is difficult to estimate the prospects of receipt of a re-exportation license for delivery into "critical" countries so that the bussiness relations to our customers are considerably affected.

For this reason, we directed our development and purchasing departments to investigate and initiate the use of substitution products.

Sincerely,

Marketing Export

signed: Riedel, Wiesenmaier

COCOM ALLY AND FOREIGN FIRM REACTION TO U.S. EXPORT CONTROLS

"U.S. export controls hinder Western European access to American technology and go against general good neighbor policy."

"The U.S. is the one most concerned about the consequences of undesirable Eastern bloc access to technology, but Western Europe must bear the consequences of the policies."

Statements made by the European Parliament

March 10, 1986

*Note:the following represents a compendium of foreign articles, reports and documents that illustrate foreign firm and government reaction to U.S. export controls. Letter codes at the margins of the first three documents indicate brief translations which immediately follow each of the first three articles.

ARTICLE 1

Deutscher Bundestag
10. Wahlperiode

Drucksache 10/5197

13. 03. 86

26.5.

ZVV 4

Unterrichtung

durch das Europäische Parlament

Entschließung zum Technologietransfer

DAS EUROPÄISCHE PARLAMENT —

— in Kenntnis des Entschließungsantrags von Herrn Linkohr zu den Beschränkungen des internationalen Technologietransfers durch die USA und deren schädlichen Auswirkungen auf die industrielle Entwicklung der Europäischen Gemeinschaft (Dok. 2-721/84),

— in Kenntnis des Berichts des Ausschusses für Energie, Forschung und Technologie (Dok. A2-99/85),

A. in der Erwägung, daß der wissenschaftliche und wirtschaftliche Fortschritt auf dem freien Austausch von Ideen, Kenntnissen und Informationen beruht,

B. in der Erwägung, daß zwischen Westeuropa und den USA enge Verflechtungen auf wissenschaftlichem und wirtschaftlichem Gebiet bestehen, was u. a. in der großen Zahl promovierter Studierender und führender Wissenschaftler europäischer Herkunft in den USA und in der Tatsache zum Ausdruck kommt, daß die Produktion der amerikanischen Unternehmen in Westeuropa das Volumen des Gesamtexports der USA übertrifft, und unter Hinweis darauf, daß ein technischer Vorsprung, den ein westliches Land in irgendeinem Bereich erwirbt, im Laufe der Zeit der gesamten Industrie im Westen zugute kommt,

C. unter Hinweis darauf, daß in den USA seit Mitte der 70er Jahre die Besorgnis zugenommen hat, daß die Sowjetunion ihr Verteidigungspotential durch westliche Technologie stärken konnte,

D. unter Hinweis darauf, daß die USA immer häufiger zur Geheimhaltung von Technologien, zur Ausfuhrkontrolle und zu vertraglichen Geheimhaltungsvorschriften übergehen und daß als Folge davon amerikanische Technologie auch für die westeuropäischen Bündnispartner nur schwer oder erst nach

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Zugeleitet mit Schreiben des Generalsekretärs des Europäischen Parlaments – 06 852 – vom 10. März 1986

Das Europäische Parlament hat die Entschließung in der Sitzung vom 21. Februar 1986 angenommen einiger Zeit verfügbar ist, was ihre Exporte in die USA und ihre Importe aus den USA beeinträchtigt,

E. in der Erwägung, daß die amerikanische Gesetzgebung zu den Exportkontrollen sehr viel umfassender ist als die entsprechenden Bestimmungen in anderen Ländern und sich u. a. auch auf die Wiederausfuhr aus anderen Ländern bezieht,

F. in der Erwägung, daß eine immer größere Zahl von Technologien sich sowohl für zivile als auch für militärische Zwecke eignet,

G. in der Erwägung, daß die zivilen Anwendungen neuer Technologien seit Mitte der 70er Jahre gegenüber den militärischen Anwendungen einen wachsenden Vorsprung gewonnen haben, daß die Kontrolle über die militärische Technologie seitdem nur durch die Ausweitung der Kontrolle über zivile Technologien sichergestellt werden kann und daß diese Entwicklung in den USA bereits festzustellen ist, u. a. bei den auf der METAL-Liste verzeichneten Technologien,

H. in der Erwägung, daß die Politik der amerikanischen Regierung offiziell damit begründet wird und einzig zum Ziel hat, daß nur bei militärisch empfindlicher Technologie, nicht aber bei aller militärisch anwendbaren Technologie verhindert werden soll, daß sie vom Ostblock genutzt werden kann,

I. in der Erwägung, daß die USA in der Praxis jedoch versuchen, den Zugang des Ostblocks zur gesamten militärisch anwendbaren Technologie zu verhindern,

J. unter Hinweis darauf, daß die USA vor allem von den Getreidelieferungen in den Ostblock profitieren, während die wirtschaftliche Bedeutung der europäischen Exporte in den Ostblock in erster Linie den Industriesektor betrifft; ferner unter Hinweis darauf, daß diese Exporte das Ergebnis eines Wettbewerbs unter Industrienationen sind,

K. unter Hinweis darauf, daß die europäischen NATO-Partner im COCOM-Ausschuß auf amerikanischen Druck einer erheblichen Erweiterung der Listen der Waren und Kenntnisse zugestimmt haben, die nicht in den Ostblock ausgeführt werden dürfen, und sich zur Einhaltung dieser Embargo-Vereinbarungen verpflichtet haben,

L. unter Hinweis darauf, daß die USA über diese multilateralen Embargo-Vereinbarungen hinaus zusätzlich einseitige Embargo-Listen anwenden und daß Westeuropa in der Praxis dadurch ebenfalls von einem amerikanischen Embargo betroffen ist, nämlich für die technologischen Produkte, die es selbst zwar in den Ostblock liefern will, die USA jedoch nicht, was einschneidende Konsequenzen für die Unternehmen in Westeuropa hat und ihre Abhängigkeit von den Vereinigten Staaten erhöht,

M. in der Befürchtung, daß die Europäische Gemeinschaft – wenn sie nicht geschlossen auftritt – aufgrund ihrer technischen Abhängigkeit auch politisch immer abhängiger und somit erpreßbar wird,

N. in der Erwägung, daß nach der inneramerikanischen Gesetzgebung die rechtliche Definition des Exports so beschaffen ist, daß für Ausfuhren aus der EG ebenfalls die US-Rechtsvorschriften gelten, soweit es sich um Zubehörteile oder Technologie amerikanischen Ursprungs handelt, was ungerechtfertigterweise auf einen Anspruch auf Extra-Territorialität der amerikanischen Gesetzgebung hinausläuft,

O. in der Erwägung, daß diese Politik schwerwiegende Auswirkungen auf die amerikanischen multinationalen Unternehmen in Westeuropa hat, die nahezu ohne Ausnahme hochtechnologische Produkte herstellen; diese Produkte können nicht in Ostblockstaaten ausgeliefert werden,

P. unter Hinweis darauf, daß die europäischen multinationalen Unternehmen, für die die USA als Lieferant von Know-how oder Zubehörteilen oder aber als Absatzmarkt von Bedeutung sind, bedingt durch die extraterritoriale Wirkung der amerikanischen Exportgesetze den osteuropäischen Markt meiden, wenn dies offenkundig ihre Belieferung durch die USA sowie – was rechtlich noch bedeutender ist – ihre eigenen Absatzmöglichkeiten in Amerika gefährdet,

Q. in der Erwägung, daß nach einer jüngsten Schätzung der CIA 70 % der von der Sowjetunion erworbenen militärisch anwendbaren Technologie entgegen den obengenannten amerikanischen Gesetzen beschafft werden und daß die USA nicht in der Lage waren, den Transfer neuer Technologien, der allgemein als abträglich für die westliche Verteidigung angesehen wird, zu unterbinden,

R. in der Erwägung, daß die vorstehend genannten Faktoren zu Recht oder zu Unrecht in Europa allgemein zu der Auffassung geführt haben, daß die amerikanischen Bestimmungen, die über die COCOM-Ausschuß erzielten Vereinbarungen hinausgehen, zum Teil von nationalen handelspolitischen Überlegungen genereller Natur, die eher von Politikern als von Vertretern der Wirtschaft kommen, beeinflußt werden —

1. stellt fest, daß die Anwendung einseitiger Beschränkungen durch die USA beim Technologietransfer über die multilateral vereinbarten COCOM-Kontrollen hinaus den Zugang Westeuropas zur amerikanischen Technologie einschränkt und einer gutnachbarlichen nationalen Politik unter Verbündeten zuwiderläuft,

2. stellt fest, daß die USA zwar am stärksten über die Folgen des unerwünschten Zugangs des Ostblocks zu westlicher Technologie besorgt sind, daß jedoch Westeuropa überwiegend die Belastungen zu tragen hat, die sich aus der dadurch bedingten restriktiven Politik ergeben;

3. weist in bezug auf den Technologietransfer zwischen Mitgliedstaaten der Gemeinschaft auf den möglichen Konflikt

zwischen den COCOM-Vorschriften und den Bestimmungen des EWG-Vertrages hin; fordert die Kommission auf, die Vereinbarkeit der Anwendung der COCOM-Vorschriften durch die Mitgliedstaaten mit den Bestimmungen des Vertrages zu prüfen und, falls erforderlich, die Angelegenheit vor den Gerichtshof zu bringen;

4. bekräftigt, daß die COCOM-Vereinbarung notwendig ist, um die Ausfuhr militärisch empfindlicher Technologie nach Osteuropa zu verhindern, ist jedoch der Ansicht, daß

   — die COCOM-Liste in regelmäßigeren Abständen überprüft werden sollte, um Produkte von dieser Liste zu streichen, die nicht länger als militärisch empfindlich angesehen werden können;

   — die Kontrollen über den Technologietransfer zwischen den einzelnen COCOM-Mitgliedern und zwischen COCOM-Mitgliedern und Drittländern, die sich zur Einhaltung der COCOM-Vorschriften verpflichten, so schnell wie möglich aufgehoben werden müssen und die Bemühungen auf COCOM-Ebene auf die ordnungsgemäße Durchführung der nach dem innerstaatlichen Recht festgelegten Kontrollen abzielen sollten;

   — für auf der COCOM-Liste stehende Produkte amerikanischer Herkunft keine zusätzliche Wiederausfuhrlizenz der USA erforderlich sein sollte, wenn sie aus COCOM-Ländern gemäß den COCOM-Vorschriften wiederausgeführt werden;

5. ist der Ansicht, daß die Kontrollen des Technologietransfers in den Ostblock ausschließlich auf der Grundlage zwischen den Verbündeten vereinbarter technischer Kriterien erfolgen sollten, was unter militärisch kritischer Technologie zu verstehen ist, und daß diese Kontrollen durch ihre einseitige und insbesondere pauschale Anwendung auf angeblich, aber nicht unbedingt bewiesenermaßen militärisch anwendbare Technologie an Wirksamkeit verloren und das Vertrauen in das System beeinträchtigt und dadurch die Einheit des Westens und die westeuropäische Wirtschaft geschädigt haben;

6. ist der Ansicht, daß Staatsbürger und juristische Personen der EWG-Mitgliedstaaten nicht ausländischen (Nicht-EWG) Rechtsvorschriften unterworfen sein dürfen;

7. empfiehlt daher den Regierungen der Mitgliedstaaten, in Anlehnung an den britischen Protection of Trading Interests Act von 1980 nach gegenseitiger Absprache Rechtsvorschriften auszuarbeiten, um dieser Praxis entgegenzuwirken;

8. ist der Auffassung, daß der beste Schutz gegen einseitige Beschränkungen beim Technologietransfer aus den USA in einem Westeuropa besteht, das den USA auch auf technologischem Gebiet viel zu bieten hat, und daß dafür energische gemeinsame Anstrengungen der Europäischen Gemeinschaft auf dem Gebiet von Forschung und Entwicklung die erste Voraussetzung sind;

9. **bekräftigt**, daß das europäische Niveau auf dem Gebiet der fortschrittlichen Technologie, insbesondere Informatik, Automatisierung, Biotechnologie, Luft- und Raumfahrt, neue Werkstoffe und Telekommunikation durch eine stärkere Zusammenarbeit im Rahmen der gemeinsamen Forschungs- und Industriepolitik verbessert werden muß;

10. **fordert** den Rat und die Kommission auf, gegenüber den USA all ihren Einfluß geltend zu machen, um einen Technologietransfer ohne Beschränkungen zwischen den USA und der EG zu erreichen;

11. **fordert** die Kommission auf, dem Parlament und dem Rat einen Vorschlag für die Grundsätze zu übermitteln, die für den Technologietransfer nach und aus Unternehmen in der Europäischen Gemeinschaft maßgeblich sind;

12. **beauftragt** seinen Präsidenten, diese Entschließung der Kommission und dem Rat sowie den Parlamenten der Mitgliedstaaten zu übermitteln.

TRANSLATION 1

A Resolution of the European Parliment Concerning Technology Transfer

Published in the official records of the EEC

Document # A2-99/85

The European Parliment,

--in recognition of Mr. Linkohr's report on U.S. limitation of technology transfer and its damaging effects on the industrial development of the EEC,

--and of the report of the Committee for Energy, Research and Technology,

A. in consideration that the scientific and economic programs depend on free exchange of information,

B. in consideration of the interrelatedness of U.S. and Western European Science, technology and trade, and the fact that what benefits one Western nation benefits them all,

C. knowing that the U.S. has been concerned since the 1970's about Soviet use of western military technology,

D. and that the U.S. is tightening export controls on products and technology,

E. considering that U.S. export control laws are much more extreme than those of other countries,

F. considering that more and more technology has civil as well as military uses,

G. considering that military technology can only be controlled if civil technology is controlled, and the U.S. wants to expand controls,

H. considering that the NATO allies agreed to an expanded control list and thereby obligated themselves to support this embargo,

L. considering that the use of the American list in effect puts Western Europe under an embargo for technical products which it would like to export to Eastern bloc countries, so that Western European dependence on the U.S. is heightened,

M. in the fear that the EEC will become politically more dependent because of technological dependency,

N. in the expectation that the re-export law amounts to American extraterritoriality,

O. considering that this policy adversely affects American multinational firms in Western Europe(almost all of which produce highly technical wares which cannot be exported to the Eastern bloc),

P. because European multinationals cannot deal with the Eastern bloc without fear of jeopardizing their relationships with the U.S., on which they are dependent for technology transfer for spare parts,

Q. because the U.S. laws are not preventing technology transfer to the Soviets,

R. because the general impression in Europe is that these controls have more to do with politics than trade,

the European Parliment makes the following statements:

1. The export controls hinder Western European access to American technology and go against general good neighbor policy.
2. The U.S. is the one most concerned about the consequences of undesirable Eastern bloc access to technology, but Western Europe must bear the consequences of the policies.
3. (This section points out conflict between the COCOM list and the EEC agreement, and asks member states to check the two discrepancies before the court.)
4. (This section emphasizes that the COCOM list is necessary for the prevention of military technology transfer to the East, but expresses the opinion that

   --the COCOM list should be revised regularly,

   --restrictions of technology transfer between COCOM member nations should be lifted,

   --no further re-export licenses should be required when re-export occurs from a COCOM member according to COCOM rules.

5. The term "military critical technology" should be defined. These controls have been applied unequally and against technology which was usable for non-military purposes. This has weakened U.S./Western European unity.

6. Citizens and members of the judiciary of EEC member states should not be subject to the laws of non-EEC nations.

7. The Parliment recommends that member nations establish laws similar to the British Protection Trading Interests Act of 1980 to combat #6 above.

8. The best way to combat one way technology transfer(to the U.S.) is to recognize that the U.S. has much to offer, and to work together to improve EEC utilization of U.S. technology.

9. The level of technology that exists in the EEC in the areas of data, automation, biotechnology, air and space travel, new raw materials and telecommunications can be raised by cooperation among EEC members.

10. Asks the Council and Commision to use all its influence to remove technolgy transfer restrictions between U.S. and EEC member nations.

11. Asks the Commission to prepare plan for technology transfer within the EEC.

12. Requests the president to present these conclusions of the Commission and the Council to the member states.

ARTICLE 2

ZVV 4
Wirtschaftspolitik
Mch W
Tel. 2057

Süddeutsche
Zeitung
-- 14.2.86

USA setzen den Handelspartnern das Messer auf die Bru

Mit einschneidenden Kontrollauflagen soll unerwünschter Technologietransfer unterbunden we

Von unserem Redaktionsmitglied Helmut Maier-Mannhart

München, 13. Februar – *Die Besorgnis, daß Produkte der Spitzentechnologie auf den verschiedensten Gebieten in unberufene Hände im Ostblock fallen, hat die Amerikaner veranlaßt, neue Exportbestimmungen zu schaffen, die für ausländische Handelspartner eine harte Nuß darstellen. Sie legen ihnen nämlich ungewöhnliche Verpflichtungen bei der Auswahl der Kunden und bei der Kontrolle der Vertriebswege auf. Sind sie nicht bereit, sich diesen Bedingungen zu unterwerfen, so dürfen sie von dem amerikanischen Exporteur nicht mehr beliefert werden. In Kreisen der deutschen Wirtschaft rechnet man auf Grund dieser Vorschriften mit beträchtlichen Komplikationen.*

Grundlage der sich anbahnenden Schwierigkeiten im deutsch-amerikanischen Handel mit hochtechnologischen Erzeugnissen vor allem der Elektronik und der Nukleartechnik sind die Export Administration Regulations. Die darin niedergelegten, äußerst komplizierten Verfahrensrichtlinien für den Export solcher Güter haben sich hierzulande als derart interpretationsbedürftig erwiesen, daß zahlreiche Verbände Aufklärungsaktionen darüber gestartet haben und Seminare angeboten werden, wobei deren Besuch – entgegen mitunter anderslautenden Informationen – nicht obligatorisch ist.

Zugriff der Behörde

Die Grundzüge dieser neuen, in Washington ausgeheckten Anforderungen sind folgende: Ein amerikanisches Unternehmen, das Erzeugnisse ins Ausland verkaufen will, die auf der Commodity Control List stehen und damit genehmigungspflichtig sind, muß beim Handelsministerium eine sogenannte Distribution License beantragen. Wird sie erteilt, so bedeutet dies, daß exportiert werden darf, allerdings nur an solche Abnehmer, die sich schriftlich verpflichten, sämtliche in dem Gesetz vorgeschriebenen Prozeduren zu erfüllen. Wichtigstes Element ist die Vorschrift, bis spätestens 23. April dieses Jahres ein internes Kontrollsystem aufzubauen, das ständig die Vertrauenswürdigkeit der Kunden überprüft und den Gang der Waren festhält. Dies gilt stets dann, wenn ein „sensibles" US-Produkt weiterverarbeitet wird. Ein typischer Fall könnten Mikrochips „made in USA" sein, die ein deutscher Maschinenbauer in die elektronische Steuerung der Geräte integriert.

Wenn dieser Abnehmer also auch nach dem 23. April noch beliefert werden will, dann muß er zu allererst die erwähnte Unterwerfungserklärung entweder beim Exporteur oder bei der zuständigen US-Behörde hinterlegen. Dann ist es notwendig, eine Liste von Angestellten zu erstellen, in der alle namentlich festgehalten werden, die mit der Überwachung der Exportkontrollen betraut sind. Der Kunde verpflichtet sich ferner dazu, in dem Betrieb stets eine aktualisierte „schwarze Liste" jener Unternehmen auf der ganzen Welt liegen zu haben, die nicht beliefert werden dürfen. Ferner müssen die Abnehmer sich verpflichten, sämtliche Kunden unter gewissen, von den US-Behörden festgelegten Kriterien auf ihre Vertrauenswürdigkeit hin zu prüfen. Und schließlich ist eine Dokumentationspflicht vorgesehen. Sie bestimmt, daß für alle Transaktionen, die einen weiteren Verkauf beinhalten (ob im Inland oder ins Ausland), entsprechende Aufzeichnungen geführt und aufbewahrt werden müssen. ●

Denn, und dies ist sicherlich der Clou der umfangreichen Vorschriften, sowohl der amerikanische Lizenznehmer als auch die US-Behörde ist berechtigt, bei den ausländischen Abnehmern jederzeit Kontrollen durchzuführen, ob sämtliche Auflagen auch eingehalten werden. Auch dem muß nämlich das mit High-tech-Gütern belieferte Unternehmen in der erwähnten Verpflichtungserklärung zustimmen. Dies aber heißt nicht mehr und nicht weniger, als daß ein Unternehmen seine gesamten Kundenbeziehungen amerikanischen Kontrolleuren aufdecken muß, sofern entsprechende Teile in die ausgelieferten Produkte eingebaut sind. Unklar ist dabei noch, welches Gewicht die amerikanischen Zulieferungen haben müssen, um die ganze Prozedur in Bewegung zu setzen. Beim ZVEI in Frankfurt argwöhnt man, daß schon ein einziger, hochintegrierter Chip genügen könnte.

A

Was bringt die Praxis?

B

Wie dies alles in der Praxis endgültig laufen soll, ist noch weithin unklar. Eines jener ungelösten Probleme ist beispielsweise, daß für unterschiedliche Erzeugnisse unterschiedliche Kontrollmechanismen vorgeschrieben sind. So könnte es durchaus passieren, daß ein deutsches Unternehmen, das mit mehreren US-Lieferanten Geschäftsbeziehungen unterhält, gleich drei oder noch mehr verschiedene Kontrollsysteme pflegen muß. So undurchsichtig die Dinge im Einzelfall auch noch sein mögen, so erlauben sie doch bereits einen Schluß: Die geschäftlichen Beziehungen im technologischen Bereich werden in Zukunft wesentlich komplizierter sein als bisher. Erste Konsequenzen werden bereits sichtbar. In der Elektroindustrie sehen sich jene Firmen, die bislang Kunden amerikanischer Unternehmen waren, fieberhaft nach anderen Bezugsquellen, z. B. in Japan um. Wegen der starken Position der amerikanischen Halbleiterindustrie gibt es jedoch nicht immer Ausweichmöglichkeiten. Wer sie nicht hat, der wird sich wohl oder übel dem US-Diktat unterwerfen müssen, wenn er nicht von der Belieferung abgeschnitten werden will.

C

Solche Restriktionen platzen denn in eine Zeit, in der man um eine deutsche Beteiligung an dem Weltraumwaffen-Projekt SDI nicht zuletzt unter dem Gesichtspunkt des notwendigen Technologietransfers wirbt. Die unter dem Export Administration Regulations einkehrende Praxis der beiderseitigen Beziehungen wird solche Überlegungen sicherlich nicht unbeeinflußt lassen.

TRANSLATION 2

Article from the Sueddeutsche Zeitung, 2/14/86

by Helmut Maier-Manhart

"USA Holds a Knife to its Trading Partners"

A. The worst effect is that the American firm as well as the U.S. Government has the right to establish controls. This means, in practice, that a German company would have to expose all of its relationships with customers to American scrutiny if protected components are used. At ZVEI in Frankfurt, the fear was expressed that the use of a single highly integrated chip might set the whole process in motion.

B. Already some firms in the electronics industry are looking for other sources--for example, in Japan.

C. The restrictions make it less likely that German firms can work on SDI.

ARTICLE 3

ZVV/4
02.MAI 1986

Ct

41. Jahrgang / 33 / 24. April 1986 / Seite 3

Sozialdemokratischer PressedienstWIRTSCHAFT

Fr.

Protektionismus statt Technologietransfer

Der wirtschafts- und forschungspolitische Schaden der SDI-Vereinbarungen

Von Josef Vosen MdB
Obmann der SPD-Bundestagsfraktion im Ausschuß für Forschung und Technologie

A Die USA reden bei der Kontrolle von neuen Technologien von Sicherheit und Unangreifbarkeit und verfolgen unter der Hand massive eigene wirtschaftliche Vorteile im Verhältnis insbesondere zu uns Westeuropäern und den Japanern. Ich sage nicht, daß dies ihre hauptsächliche Motivation ist, aber sie nehmen diese angenehmen Folgen eines mit ihrer Sicherheitspolitik verknüpften latenten Protektionismus gerne hin. Der Vorwurf an Herrn Bangemann lautet, daß er es versäumt hat, unsere dagegen stehenden Interessen in diesem Zusammenhang überhaupt einzubringen.

B Die Analyse dieses latenten und in seinen Wirkungen auch massiven Protektionismus wird auch im Regierungslager geteilt. Werner Hein hat im Juni 1984 für den Bundesminister für Forschung und Technologie festgestellt, daß gegen diese unbestreitbaren Tendenzen eines Technologieembargos der USA gegenüber Westeuropa ein gemeinsames europäisches Vorgehen der Regierungen und Wirtschaftskreise im EG-Rahmen zweckmäßig ist. Die europäischen Regierungen würden den Anspruch der extraterritorialen Geltung ihrer Export-Kontrollgesetze „nach dem Abebben des Sturms um das Erdgas-Röhren-Geschäft in Vergessenheit geraten lassen." Die europäischen Regierungen müßten sich für eine Einschränkung dieser Reexport-Klausel des US-Rechts einsetzen.

Was hat Herr Bangemann gemacht? Er hat sich nicht nur nicht für eine Änderung der amerikanischen Gesetzgebung in diesem Punkt eingesetzt, sondern er hat obendrein den Amerikanern noch eine Änderung unserer Gesetzgebung in ihrem Sinne zugesagt, wie aus den Begleitbriefen hervorgeht.

C Der ehemalige EG-Vizepräsident Davignon hat Ende 1984 die Tendenzen der US Exportkontrollen auf dem high-tech-Sektor als eine Bedrohung der industriellen Autonomie der Gemeinschaft bezeichnet. Mit den auf diesem Sektor drohenden Auseinandersetzungen sei der dauernde Agrarstreit mit den USA nur Kleinkram. Herr Davignon hat nicht vorhersehen können, daß Herr Bangemann sich mit den USA auf diesem Sektor nicht auseinandergesetzt hat. Er hat sich unterworfen.

D Der EG-Forschungskommissar Narjes hatte die europäischen Forschungsminister im Dezember 1985 aufgefordert, gemeinsam auf die Aufrechterhaltung europäischer Positionen gegenüber den USA auf diesem Gebiet zu achten. Die Bundesregierung hat diesen Aufruf zur europäischen Solidarität in den Wind geschlagen.

E Kurt Biedenkopf hat Anfang 1985 in der Wirtschaftswoche die Frage, ob der Technologietransfer in den Osten überhaupt je beschränkt werden könne, in interessanter Weise aufgegriffen. Er sieht die Möglichkeit, daß die Anwendung neuer Technologien mit ihrer dezentralisierenden Wirkung das Gesellschaftssystem der UdSSR von innen beeinflussen könne. „Es kann ein Interesse daran geben, solche Prozesse durch Technologietransfer zu fördern." Und er ist mit uns der Meinung, daß wir Europäer im Rahmen des Bündnisses selbst beurteilen können sollten, was wir exportieren und was nicht. „Man muß sich auch die Frage stellen, ob der allgemeine Anspruch der USA, nämlich die exterritoriale Anwendung ihres Rechts, unverändert auf das Verhältnis im Bündnis übertragen werden darf. Nach meiner Auffassung darf man das nicht."

3

Ich stelle fest, Herr Biedenkopf weiß wenigstens noch, was deutsche Interessen sind.

Das Europäische Parlament hat – wie in der Bundestags-Drucksache 10/5197 nachzuleser im Marz 1986 die Kommission einmutig – mit den Stimmen der CDU/CSU – aufgefr Maßnahmen zu treffen, damit der Technologietransfer aus den USA nach Westeuropa m bleibt und wird.

Herr Bangemann hat sich unter völliger Mißachtung seines wirtschaftspolitischen Aufgabengebi tes und seiner Ressortverantwortung in eine verteidigungspolitische Verhandlung eingelassen, w ihm alles, aber auch wirklich alles über den Kopf gewachsen ist.

Mit Entsetzen stellen wir fest, daß er unter der Überschrift „Technologietransfer" nicht fur di Schaffung einer Zweibahnstraße in der deutsch-amerikanischen Forschungs-Kooperation ein getreten ist. Er hat zugelassen, daß das von den Amerikanern bisher schon praktizierte Einbahr straßensystem auf neue Gebiete der deutschen Hochtechnologie, wie Prazisionsoptik, Hc frequenztechnik und einige Bereiche der Materialforschung ausgedehnt werden wird. Das sin Technologielucken, die den USA in ihrer SDI-Sammlung noch fehlen.

F Die Beteiligung an SDI wird unter den gegebenen Umständen nicht nur keinen Technc transfer für uns bringen, sondern den Protektionismus der USA zu unseren Lasten versta Herr Bangemann redet von Verbesserung des Technologietransfers und meint die Verschartu der Exportkontrollen gegenuber dem Ostblock.

Die Notwendigkeit der Verbesserung des Technologietransfers – also des Wissens- und Erkenn nisaustauschs unter den Wissenschaftler, Forschern und staatlichen und industriellen Labora torien – im westlichen Bundnis untereinander erkennt er noch nicht einmal als ein Problem

In diesem unglaublichen Begriffs-Wirrwarr wird deutlich, daß Herr Bangemann in den USA nich nur industriepolitisch, sondern auch forschungspolitisch als blutiger Laie aufgetreten ist.

G Wir sind für wirklichenTechnologietransfer unter den Verbündeten eingetreten. Wir haben davc gewarnt, daß durch SDI die Freiheit der Wissenschaft und Forschung beschnitten wird, daß di Geheimhaltung in der Forschung auf immer mehr Gebiete, auf bisher rein zivil tatige Firmen un auf eine noch nicht abzusehende Anzahl von Kooperationsbeziehungen von Firmen und Hoch schulen ausgedehnt wird. Die Vereinbarungen werden zu einer gravierenden Unsicherheit fur di deutsche Forschung, Wissenschaft und Wirtschaft fuhren und – schlimmer – es werden we volle Ressourcen von bisher zivilen Feldern abgezogen. Dies wird unsere Forschungslandsc und unsere Wettbewerbsfahigkeit schwächen.

H Die Verträge, die offensichtlich kritik- und wehrlos weite Teile des US-Export Kontroll-System in unser Rechtssystem übernehmen, sind ungleich; sie sind schadliche Vertrage (–/24.4.86/jr/fr

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3

02.MAI 1986

Ct

Sozialdemokratischer
Pressedienst WIRTSCHAFT

41. Jahrgang / 33 / 24. April 1986 / Seite 3

F.

Protektionismus statt Technologietransfer

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Von Josef Vosen MdB
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Was hat Herr Bangemann gemacht? Er hat sich nicht nur *nicht* für eine Änderung der amerikanischen Gesetzgebung in diesem Punkt eingesetzt, sondern er hat obendrein den Amerikanern noch eine Änderung unserer Gesetzgebung in ihrem Sinne zugesagt, wie aus den Begleitbriefen hervorgeht.

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in unser Rechtssystem übernehmen, sind ungleich, sie sind schädliche Verträge. (– 24.4.86 –

* * *

TRANSLATION 3

"Protectionism Instead of Technology Transfer"

Article written by Josef Vosen, SPD(Social Democrtaic Party) Party chairman for Research and Technology Committee of the German Parliment.

Published in the SPD press service publication for economics, April 24, 1986.

A. Claims that the real effect of the controls will be to give the U.S. competitive advantage in trade over the Western Europeans and Japanese. Calls the U.S. policies a manifestation of "latent protecionism."

B. Werner Hein warned in June, 1984 that European governments and businesmen should take action to discourage this "obvious tendency toward a technology embargo."

C. At the end of 1984, former EEC vice president Davignon called the U.S. proclivity for export controls in the high tech sector a threat to industrial autonomy of the EEC, and that compared to the problems with high technology, the fight over agriculture was insignificant.

D. The EEC R&D Commissioner Narjes, in December, 1985, warned us of the need to stand firm against the U.S. on EEC positions in this area.

E. Kurt Biedenkopf, in the beginning of 1985, in "Economic Week" expressed the opinion that Europe was capable of deciding what technology transfer should be allowed to the East, and asked whether the extraterritorial application of U.S. laws should be tolerated by the EEC.

F. Contributing to U.S. SDI technology would be one way street, with no advantage to Germany. It would strengthen U.S. protectionism at Germany's expense and,

G. inhibit exchange of scientific information, and pull German resources from civil to military endeavors, thus weakening Germany's competitive capabilities.

H. Treaties which ask us to accept large parts of the U.S. export control system into our legal system are damaging treaties.

DELEGATION
OF THE
COMMISSION OF THE EUROPEAN COMMUNITIES

The Delegation of the Commission of the European Communities and the Embassy of the United Kingdom present their compliments to the Department of State and wish to refer to the proposed amendments to the Export Administration regulations, as published by the Department of Commerce on July 7, 1986.

The proposed amendments would remove U.S. reexport controls over foreign produced goods where the U.S. value content is 20 percent or less and the sale is to an entity or person in a country listed in supplements nos. 2 or 3 to part 373 of the Export Administration regulations.

The European Communities and their Member States take note of these proposed amendments, and welcome them so far as they lessen the burden of U.S. extraterritorial export controls, and as they make the existing U.S. control regulations in this area more explicit. At this point they wish to make the following comments:

The European Communities and their Member States continue to reject the U.S. assertion of extraterritorial jurisdiction over the sale of foreign produced goods on the basis of the inclusion of U.S. parts and components, and their other points must be read in the light of this general point.

The proposed amendments maintain an unjustifiable discrimination against a Member State, Ireland, which is not a member of COCOM but which applies a rigorous policy of export controls.

The European Communities and their Member States would wish to see:

(i) No requirements for U.S. reexport approval, if the ultimate destination is a COCOM or E.C. Member State, or at least a significantly higher threshold,

(ii) A higher threshold for countries listed in supplements nos. 2 or 3 to part 373 of the Export Administration regulations, which are neither E.C. nor COCOM Member States,

(iii) Some threshold, even if lower, for destinations in COCOM controlled countries,

(iv) Some threshold for other destinations.

The European Communities and their Member States reserve the right to make further comments.

The Delegation of the Commission of the European Communities and the Embassy of the United Kingdom avail themselves of this opportunity to renew to the Department of State the assurance of their highest consideration.

RD

Washington, D.C.

September 19, 1986

DELEGATION
OF THE
COMMISSION OF THE EUROPEAN COMMUNITIES

The Delegation of the Commission of the European Communities and the Embassy of Belgium present their compliments to the Department of State and wish to refer to the series of sanctions to be imposed against Syria as announced by President Reagan on 14 November 1986.

These measures will include new export controls to become effective upon issuance of implementing regulations by the Department of Commerce. They "will probably include controls over reexports of U.S. origin goods from Third Countries to Syria."

The European Community and its Member States wish to state that such regulations should not purport to exercise extraterritorial jurisdiction over the reexport of U.S. origin goods, technology or components. Any regulation purporting to do so would be objectionable to the European Community and its Member States as a matter of law and of policy.

The European Community and its Member States reserve the right to make further detailed comments.

The Delegation of the Commission of the European Communities and the Embassy of Belgium avail themselves of this opportunity to renew to the Department of State the assurance of their highest consideration.

RD

Washington, D.C.
January 29, 1987

Business International

Business Europ

FORTNIGHTLY MANAGER'S MONITOR

JULY 28, 1986

PRIVATIZATION

Paris/Brussels Standoff In "No Foreigners" Row

● **The center-right French government's supposed free-market principles are clashing with the fear of national assets slipping into foreign hands.**

Socialist President François Mitterrand's refusal to sign a key privatization decree on grounds of protecting national interests is unlikely to bring the government down—but the xenophobia Mitterrand has stoked up could push Prime Minister Jacques Chirac's administration into a conflict with the EEC.

Chirac has asserted that his government will neither provoke a crisis nor be deterred from implementing its electoral promises. His decision to seek parliamentary approval for privatization means that a constitutional showdown and possible dissolution of parliament by the President has been averted—although new conflicts could arise in the autumn over the 1987 budget.

Mitterrand can only delay for 15 days legislation which has been approved by parliament, and Chirac's government means to push the privatization bill through by mid-August. But the process will certainly be slower than a decree, even if the government uses the "issue of confidence" procedure to speed up debate, as it is expected to do. After passing through the National Assembly, the bill must go to the Senate, then the opposition will almost certainly refer it to the Constitutional Council. Taking the summer recess into consideration, the legislative process alone could delay the bulk of the privatization plans for up to four months.

Delays and setbacks to privatization will cause budget problems for the government, which planned to raise Ff40 billion ($5.75 bn) next year through

(continued on page 4, column 1)

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STRATEGIC EXPORT CONTROLS

UK May Lead EEC Against US Hi-Tech Controls

● **As US hi-tech controls begin to affect the commercial interests and freedom of British companies, the UK government is coming under increasing pressure to take action. It is unlikely to act alone, however, preferring to use its presidency of the EEC to coordinate a European response.**

The whole issue of US attempts to enforce its laws on non-US-resident companies is not new. In 1980, the UK took powers in its Protection of Trading Interests Act to prevent UK companies having to comply with extraterritorial US laws. These were subsequently invoked to direct British companies not to comply with certain provisions of the US's export administration regulations (John Brown at the time of the Siberian pipeline affair); and to ban the participation of UK companies in certain US lawsuits (British Airways after the Laker Airways collapse).

Recently, however, the US administration has further tightened its Export Administration Act. As a result, a number of US computer firms with operations in the UK have had to inform their British customers that if they wish to move certain com-

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puters from one location to another, even within the UK (and even if no change of ownership is involved), they will need a license from the US Department of Commerce. British hi-tech companies seeking to export their manufactured goods are also now required to apply for a US export license if the goods contain any US-produced component.

When exporting, therefore, British companies must obtain two export licenses: one from the Department of Trade & Industry (to comply with the UK's CoCom obligations and a second from the US Department of Commerce. The latter can take up to three months, and may, as in the case of an application by Cable & Wireless to sell telecommunications equipment to China, be rejected without explanation. Ironically, US companies were already selling precisely the same equipment to China.

UK hi-tech firms vulnerable

Indeed, as the UK government has recently discovered during its efforts to sell a Department of Energy Cray 1 supercomputer to London University, it too must seek US government approval. It is rumored that the US government has gone so far as to impose unilateral third party restraints on a number of Japanese companies and their European distributors to prevent them from supplying London University with an alternative super-computer.

With a substantial proportion of the components used in UK hi-tech manufacture coming from the US, the vulnerability of British hi-tech companies to US blacklisting for refusing to cooperate with the licensing requirements is evident. And it is this vulnerability that has put both the British hi-tech sector and the UK government in a dilemma over how best to confront the problem.

The UK government strongly rejects claims made by the US government to have jurisdiction over US goods or goods based on US technology while they are in the UK or when they are being exported from the UK. The Minister for Information Technology, Geoffrey Pattie, says that "This government will continue to do its utmost to protect British interests, and we stand ready to support any UK company that in the course of its legitimate trading has fallen foul of US extraterritoriality." But while the UK government is prepared to take up any specific cases brought to its attention, it is well aware that many British companies would lose more from being blacklisted than they would gain from a strong defense of the UK's sovereignty.

An acid test of this "leave it to companies" policy is the proposed dispatch of US Department of Commerce inspectors to the UK to check up on British companies' suitability as "approved foreign consignees." Attaining this status would release them from the requirement to obtain individual US export licenses each time they purchase hi-tech goods from the US. While the UK government has no objection (in practice) to British companies changing their procedures to comply with the contractual requirements of their US trading partners, it draws the line at British companies "opening their books" directly to US inspectors.

In the short term, Pattie is hoping to persuade US-owned subsidiaries in the UK to "vary the terms" of the strict compliance circulars that they have sent to their UK customers. The subsidiaries' freedom to soften the US rules—to make direct inspection by the Department of Commerce unnecessary—is limited, however. IBM, for example, has confirmed that it will not withdraw its own circular.

The UK is expected to coordinate a stronger EEC position on US extraterritoriality during its presidency and is certain to receive strong backing from France. The European Parliament is also likely to advocate a tough stance in a forthcoming debate on the issue. More fundamentally, however, the UK now sees European hi-tech cooperation as the only long-term solution to the problem so as to lessen the dependence of UK companies on supplies from the US.

Will such a strategy eventually mean a decline in sales for US-sourced hi-tech products? The UK government is certainly hinting that it will. While it looks as if the US will eventually be able to enforce its current level of controls, the inevitable consequence will be a concerted effort to shift hi-tech orders toward European—and possibly Japanese—suppliers. US companies should not be surprised, therefore, when they find themselves excluded, apparently arbitrarily, from programs like Eureka and regularly lose public procurement contracts.

NATIONAL POLICY PRIORITIES

New Dutch Government Is Good News for Business

● **The Dutch center-right cabinet has now come into office, with Christian Democrat Ruud Lubbers again at the helm. The new government will continue its successful moderate austerity program, and the pro-business attitude will remain unaltered.**

The new cabinet is similar to the first Lubbers administration, with a few new faces. The Economics Ministry is now led by Liberal (VVD) Rudolph De Korte, while Finance remains in the hands of Christian Democrat (CDA) Onno Ruding. However, the CDA's hand has been strengthened with the addi-

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Export Administration,
U.S. Department of Commerce
P. O. Box 273

Washington, D. C. 20044

Your Ref.

Our Ref
Dr.Du/ke

Date
22.8.1986

Revision of Controls on Foreign Products incorporating U.S. Origin Parts, Components, and Materials

Dear Mrs. Ferrell,

we would like to present our views on the notice of the proposed revision of § 376.12 EAR published in the Federal Register of July 7, 1986, inviting for public comments.

ZVEI is the association of the German Electrical und Electronic Industries. It represents 1.200 electrical companies manufacturing in the Federal Republic of Germany. ZVEI member-companies using U.S. parts to a large extent and depending largely on export have a vital interest in the implications of the U.S. regulations on reexport controls. So ZVEI organized an information seminar on U.S. reexport controls, October 25, 1985, with presentations by Mr. Theodore Wu and Mr. Daniel Hill, Department of Commerce.

We are concerned that the wording of the proposed rulemaking goes beyond that of the present § 376.12 as regards extraterritorial effects. It is said, explicitly, that the Department of Commerce controls the export from abroad of foreign-made products containing U.S. origin parts: "The Department of Commerce asserts control over such incorporated commodities by placing limits on the export from abroad of the foreign-made products into which they are incorporated" and "The prior written approval of the Office of Export Licensing (OEL) is required for the export from a foreign country of a foreign-made product containing U.S. origin parts, components, or materials".

If foreign-made products are intended to be placed directly under United States export controls the regulations should at least provide for a favourable treatment for COCOM-partners and should not require the same degree of control as for other countries. We would therefore propose an amendment to the regulation (a) (2) in the sense that a reexport license for the export from COCOM-countries is not required if the U.S. content value is 20 % or less, regardless of the ultimate [illegible] countries the end-products are in any case [illegible] the interests of the United States of national security or foreign policy are assured by national licensing procedures so that additional U.S. controls lose their purpose. Therefore regulation (a) (2) should read as follows:

"If the U.S. content value is 20 % or less".

The question is, if a restriction of the 20 % rule for export to certain countries would mean that for exporting of end-products containing U.S. parts of low value to all other destinations, a license is required. Such a ruling would not be practicable.

For the calculation of values, described in clause (c) the U.S. content value and the foreign-made product value should be based on costs or prices excluding value-added or excise taxes. For a fair and equal treatment taxes which vary considerably from country to country should be eliminated from costs as well as selling price.

Finally, we come to the conclusion that the costs for export controls resulting from the United States Export Control Regulations for foreign products jeopardize the partly existing price advantages for American parts and components in comparison to products from other countries, for instance Japan. The foreign competitiveness of U.S. products is thus reduced so that it will become more and more interesting for German companies to buy products from other countries.

We hope that our above comments may find your consideration.

Sincerely yours

ZENTRALVERBAND ELEKTROTECHNIK-
UND ELEKTRONIKINDUSTRIE e. V.

The Management

Düssel

Dr. Bottcher   Dr. Dussel

The Uncommon Market

By Roger Woolnough

'EXTRATERRITORIALITY' ISSUE VEXES EUROPEANS

LONDON — "Extraterritoriality" hardly seems a word to make the blood tingle. But it has produced emotions among European electronics companies that range from simple irritation to deep-seated anger.

It is a description given to the policy adopted by the United States government of applying U.S. laws in other countries, primarily as a means of controlling the export of high-technology products to the Eastern bloc.

It is one of the basic paradoxes of this issue that practically nobody in the West has any disagreement with the purpose of the U.S. government's actions. Most people believe that it's a good thing to keep high technology out of the hands of Soviet Russia and its satellites.

What has caused the trouble is that, once the policy is taken to its logical conclusion, individual non-U.S. companies find they cannot carry on their normal way of life in their own countries without getting permission from the U.S. government.

FAR-RANGING IMPLICATIONS

The restrictions imposed by Washington range far beyond the export of strategic goods to the Eastern bloc. In one case, a **Cray** supercomputer owned by the British government could not be moved 40 miles to the University of London because the U.S. government would not give permission.

That was no isolated case. The British subsidiaries of both **IBM Corp.** and **Digital Equipment Corp.** have sent letters to their customers saying that computers supplied by them could not be moved within Britain unless Washington first approved.

In another instance, the U.S. Department of Commerce has sought to visit Britain to inspect the books of British companies, operating within Britain, so as to make sure they comply with U.S. law. According to Paddy Ashdown, a Liberal member of Parliament, the British attorney general told him that Washington's claims in this matter were "an unwarranted encroachment on U.K. jurisdiction and contrary to international law."

But that statement was made in July 1985, and the U.S. government is still trying to inspect the books of British companies.

Similar cases exist in other European countries, and the Common Market authorities started an investigation into the effects of U.S. trade laws in Europe as long ago as October 1984. Members of the European Parliament have also spoken out against the actions of Washington.

ANOTHER DISPUTE

But no sooner is one dispute sorted out than another comes up. The latest report is that **Motorola Inc.** is asking British companies which market its cellular radiophones to sign declarations that they will ensure the equipment does not fall into what Washington believes to be the wrong hands.

Most distributors have signed, though controlling the eventual destination of such products is virtually impossible.

The real reason for not making a bigger issue of the whole matter is that European firms depend heavily on high-tech supplies from the United States to stay in business. Whether it is a supercomputer or a VLSI chip, this is a case where it's not the customer who is always right, but the supplier

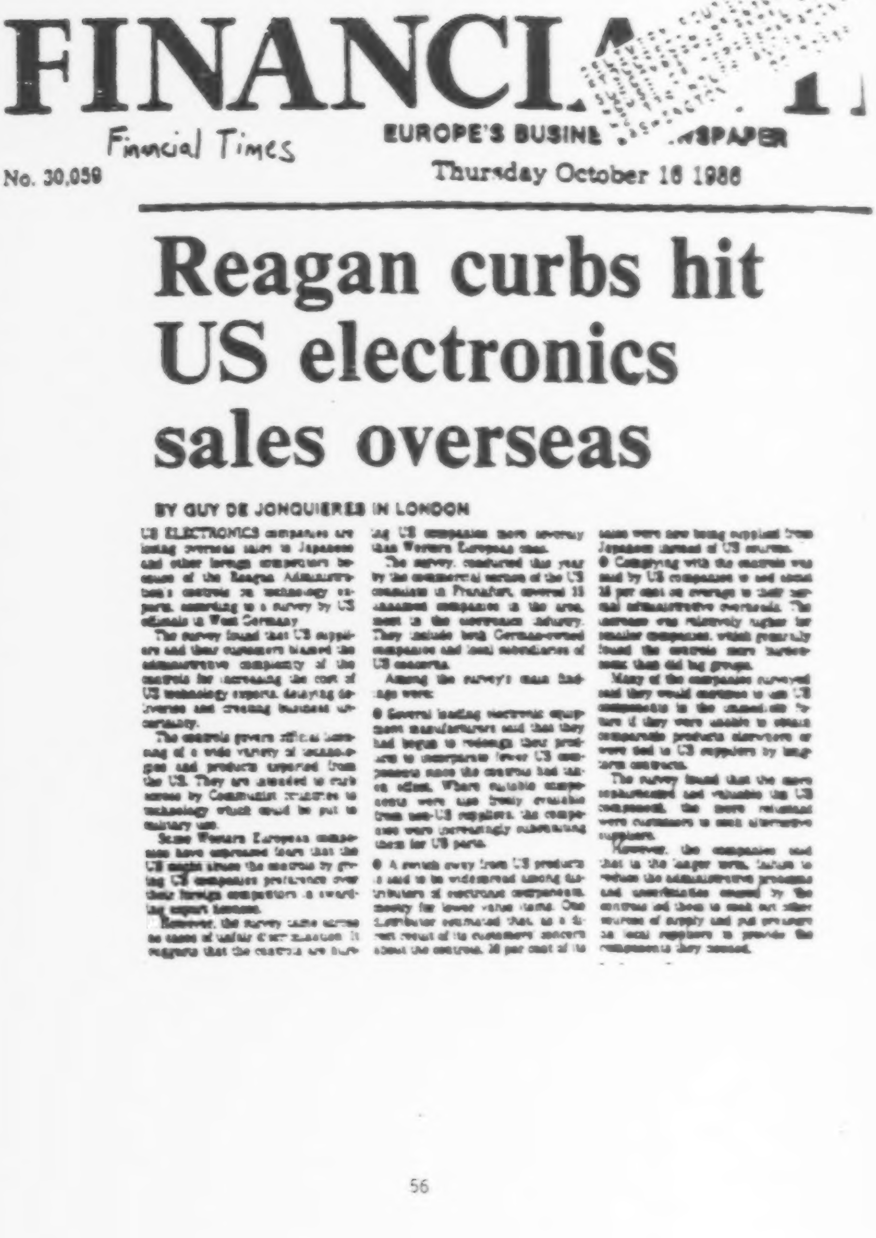
AFRAID TO KICK UP A FUSS

Even the vociferous Paddy Ashdown, who claims that British companies have complained to him, admits, "The firms concerned are naturally frightened of retaliatory action from the U.S. Department of Commerce if they kick up a fuss."

Yet within that very fact may lie Europe's solution to the problem. For if European companies were able to source a higher proportion of their high-tech needs from local producers, the U.S. government would be less effective in exercising control.

That was very much the line that Geoffrey Pattie took in the Commons debate, pointing to the efforts at European collaboration as a means of creating home-grown high technology

Clearly that is a policy which will not bear fruit for many years. But it may not be too soon for the U.S. government, and the U.S. electronics industry, to ponder one possibility: By restricting access to American technology it may succeed in weakening the Eastern bloc; but if it is too restrictive with its allies, the U.S. may simply end up by weakening itself.



FINANCIA
EUROPE'S BUSINE [illegible] WSPAPER
Financial Times
No. 30,059
Thursday October 16 1986

Reagan curbs hit US electronics sales overseas

BY GUY DE JONQUIERES IN LONDON

US ELECTRONICS companies are losing overseas sales to Japanese and other foreign competitors because of the Reagan Administration's controls on technology exports, according to a survey by US officials in West Germany.

The survey found that US suppliers and their customers blamed the administrative complexity of the controls for increasing the cost of US technology exports, delaying deliveries and creating business uncertainty.

The controls govern official licensing of a wide variety of technologies and products exported from the US. They are intended to curb access by Communist countries to technology which could be put to military use.

Some Western European companies have expressed fears that the US might abuse the controls by giving US companies preference over their foreign competitors in awarding export licences.

However, the survey came across no cases of unfair discrimination. It suggests that the controls are hurting US companies more severely than Western European ones.

The survey, conducted this year by the commercial section of the US consulate in Frankfurt, covered 35 unnamed companies in the area, most in the electronics industry. They include both German-owned companies and local subsidiaries of US concerns.

Among the survey's main findings were:

● Several leading electronic equipment manufacturers said that they had begun to redesign their products to incorporate fewer US components since the controls had taken effect. Where suitable components were also freely available from non-US suppliers, the companies were increasingly substituting them for US parts.

● A switch away from US products is said to be widespread among distributors of electronic components, mostly for lower value items. One distributor estimated that, as a direct result of its customers' concern about the controls, 20 per cent of its sales were now being supplied from Japanese instead of US sources.

● Complying with the controls was said by US companies to add about 25 per cent on average to their normal administrative overheads. The increase was relatively higher for smaller companies, which generally found the controls more burdensome than did big groups.

Many of the companies surveyed said they would continue to use US components in the immediate future if they were unable to obtain comparable products elsewhere or were tied to US suppliers by long-term contracts.

The survey found that the more sophisticated and valuable the US component, the more reluctant were customers to seek alternative suppliers.

However, the companies said that in the longer term, failure to reduce the administrative problems and uncertainties caused by the controls led them to seek out other sources of supply and put pressure on local suppliers to provide the components they needed.

Overkill in export control

EVER SINCE the US began cracking down some five years ago on illegal exports of militarily-useful technology to the Soviet bloc, businessmen and scientists on both sides of the Atlantic have complained that legitimate trade in high technology has been unnecessarily stifled. Should Europe's answer be to stop buying American?

A recent survey conducted by the commercial section of the US consulate in Frankfurt tends to confirm a widely-held belief that American export controls exaggerate the strategic threat and do more damage to US companies in Europe than to the Soviet military machine.

It reveals that some European-based electronics companies are searching for other sources of supply, notably Japan. Other companies in the past have reacted even more strongly, suggesting that the export controls are a surreptitious way of reinforcing US dominance in civilian as well as military technology. They have concluded that the stringency of American licensing is grounds for building a technically self-sufficient European electronics industry.

Cheapest sources

No convincing evidence has been produced to show that American export controls do in practice discriminate against Europeans, nor that honest companies have suffered more than irritating interference and (sometimes expensive) delays. Whatever justifications there may be for an independent third force in world technology trade, the administrative burden of buying American is certainly not one of them. Just because the Pentagon sees advanced technology as a strategic issue does not mean that European industry should head for the bunker.

Like it or not, companies are operating in a world market and are compelled to buy their components from the cheapest and most reliable sources: the cost of duplicating in Europe low-price Japanese chip manufacture or sophisticated US systems would be unbearably high and absurdly wasteful of resources. Their own commercial alliances outside Western Europe show that companies recognise the fact. Britain's ICL has links with Fujitsu, and American manufacturers like Honeywell have taken similar refuge with the Japanese to meet the worldwide challenge of International Business Machines.

Yet so long as the Pentagon appears to be dictating commercial procedure to the Department of Commerce, the political cost of American export controls will be high. For example, the British and US governments have been arguing for over a year whether holders of American distribution licences in Britain should be forced to submit to inspection by US officials as required by American law. The extra-territorial application of that law has been a running sore in transatlantic commercial relations.

Better balance

The huge embargo list of so called "dual use" items operated by the Nato allies and Japan is still seen by frustrated manufacturers as the product of American strategic obsessions rather than as a sensible restraint on high-technology trade with the Communist bloc. Efforts have been made to refine that list (Apple computers were taken off last year) so that yesterday's hardware is set free as tomorrow's technology is added.

No administrative system, however rigorous, will be proof against people who make money by leaking sensitive technology to the Soviet Union, just as no economic embargo is totally enforceable and no law will deter every potential traitor. It is a question of striking a better balance between the needs of honest traders and the opportunities for dishonest ones.

A still more discriminating approach by Nato's co-ordinating committee (CoCom) would go a long way to relieving the unnecessary burden of US controls on the free world's electronics manufacturers and traders. At the same time the Pentagon should trust allied governments to track down and punish those who smuggle technology to the East. Once American technology leaves US shores, it becomes a collective responsibility. The present system destroys business confidence and invites [illegible] responses that would only [illegible] innovation still further.

Financial Times
20 Oct 86
p 16

APPENDIX

AEA ADMINISTRATIVE AND LEGISLATIVE PROPOSALS FOR EXPORT CONTROL IMPROVEMENTS

"The serious competitive problems faced by U.S. electronics companies in the international marketplace resulting from current U.S. export controls, requires that administrative and legislative improvements in the export control system be made...The U.S. must focus its controls on truly critical commodities-in effect, place higher fences around fewer items."

Statement of Herbert M. Dwight
CEO, Spectra-Physics, Inc.
Before the
House Subcommittee on International Trade
March 12, 1987

AEA ADMINISTRATIVE PROPOSALS FOR LICENSING IMPROVEMENTS

I. Fully implement the letter and intent of the Export Administration Act, as amended in 1985.

o Resolving Interagency Disputes

Action Item

The National Security Council, on behalf of the President, should create and implement a procedure in which interagency differences can be rapidly resolved within statutory time frames. When time frames do not appear in law, they should be created administratively. Two separate management mechanisms should be created: one for making licensing decisions and another for adding and deleting items from the control list.

o Decontrol of Low-Level Technology

Action Item

Expand G-COM coverage to all AEN items, and publish regulations that facilitate the accurate determination of which items do not require licenses for COCOM exports(or in the future all free world exports) for all ECCN's.

Implement a procedure that requires unnecessary applications be returned to the exporter with the notification that the application is unnecessary.

o List Review

Action Item

The Commerce Department(with the cooperation of other agencies as appropriate) should implement a procedure whereby a truly meaningful list review takes place in which lower level items are removed each year through indexing. As part of the indexing procedure, new items should be made eligible for bulk licenses. As a first step toward streamlining the control list, broad categories of low level goods(such as COCOM national discretion items) should be decontrolled immediately to make up for years of neglecting this provision.

o Replacement Parts

Action Item

The Executive Branch should implement the replacement provision immediately for items controlled only for national security reasons pending the resolution of foreign policy questions. The appropriate government officials should request that Congress provide a statutory clarification of its intent if needed to resolve the question.

II. Provide the Department of Commerce with the financial resources to properly execute the law.

- Pay Scales

Action Item

The Office of Management and Budget and the Department of Commerce should immediately increase salaries of Commerce Department employees to levels that exist for comparable jobs in the Department of Defense.

- Automation

Action Item

The Commerce Department should hire an outside consultant to identify weaknesses in the export control process and recommend additional ways to automate. OMB should provide in the Commerce Department budget the funds to pay for the study and implement the consultant's recommendations.

III. Other Measures to Improve Competitiveness.

- Trade Shows

Action Item

U.S. exporters should be permitted to demonstrate products at trade shows provided the product is returned to the U.S. afterwards if it cannot be approved for sale.

- Complexity of the Export Administration Regulations(EAR)

Action Item

The Department of Commerce should hire an outside public relations consultant to examine the current EAR. The firm should present several completely rewritten forms of the EAR incorporating changes in style, format, and specific language with the aim of making the EAR as clear, accurate and succinct as possible. The new EAR should include all existing provisions as well as "in house" guidelines.

- Responsiveness to West Coast Exporters

  Action Item

  The Department of Commerce should establish a procedure for processing certain routinely processed categories of license applications on the West Coast in either existing Commerce Department offices or in a new office. In addition, license application forms should be modified to allow exporters to request return by overnight courier at the exporter's expense.

IV. Implementation of AEA Legislative Proposals

Action Item

Implement administratively AEA's legislative recommendations for improving the export control system.

AEA LEGISLATIVE PROPOSALS FOR LICENSING IMPROVEMENTS

REEXPORT CONTROLS

(a) Eliminate reexport controls on U.S. products reexported to, within or among COCOM or 5(k) countries, but provide an exception for high-level goods not eligible for bulk licensing.

(b) Eliminate reexport controls on U.S.-origin parts and components contained in foreign products to be exported to countries other than COCOM or 5(k) when the parts and components constitute 20 percent or less in value of the product.

(c) Amend the description of a general license to include reexports under such license of U.S.-origin goods.

DECONTROL LOW LEVEL ITEMS

(a) Extend the G-COM procedures (decontrol of technology below AEN level) for exports (and reexports) to all free world countries.

(b) For exports to COCOM and 5(k) countries, raise the G-COM level to the PRC green line level, thereby decontrolling exports of technology below this level to these countries.

FOREIGN AVAILABILITY

(a) Require that the uncontrolled availability of goods and technology in free world countries be sufficient grounds for making a foreign availability determination.

(b) Require the Secretary of Commerce to license exports (without the possibility of a Presidential veto) to any free world destination if the end user can obtain the item from another source.

PUBLISHING FOREIGN AVAILABILITY ALLEGATIONS

Require the Secretary of Commerce to acknowledge the receipt of foreign availability allegations from industry and publish in the Federal Register within 30 days the action the Secretary has taken on the allegation. Allow a maximum of seven months for the Secretary to make a decision.

DISTRIBUTION LICENSE

Permit use of a distribution-type license for certain exports to the People's Republic of China.

INDUSTRY REPRESENTATIVE TO COCOM

Require that the U.S. delegation to COCOM control list meetings include (either officially or unofficially) representatives of U.S. industry who are knowledgeable about the items being reviewed.

UNILATERAL CONTROLS

Require the Secretary of Commerce to review, on an annual basis, all U.S. unilateral controls, to delete those that are no longer appropriate, and to publish a list of remaining controls in the Federal Register together with a specific justification for each control. In addition, require the Secretary to report to Congress on the steps being taken to achieve multilateral status for the remaining unilateral controls.

TECHNICAL ADVISORY COMMITTEES

Require that TAC chairpersons present the TAC's findings in the interagency review process and report to the TAC the actions that are taken on the TAC's recommendations and the reasons for those actions.

GOODS CONTAINING MICROPROCESSORS

Clarify the existing provision in law regarding the decontrol of certain goods containing embedded microprocessors to fully implement the intent of Congress. Expand the provision to include other embedded components.

NEGOTIATIONS WITH OTHER COUNTRIES

Establish the following U.S. objectives for negotiating multilateral and bilateral agreements:

(a) Create an export/reexport license-free zone within COCOM and other cooperating countries by 1990;

(b) Raise the national discretion level for low-level technology exports to free-world countries;

(c) Raise the green line level for exports to the PRC.

Senator Harkin. Anything else either one of you want to add? Again, we appreciate your recommendations, and also yours, Mr. Sayer. They are good recommendations.

Thank you very much.

The Subcommittee will stand adjourned until the call of the chair.

[Whereupon, at 2:55 p.m., the hearing was adjourned.]

Suite [illegible]
[illegible] Maryland Ave. S.W.
Washington, DC [illegible]

[illegible]

National Federation of
Independent Business

APPENDIX

NFIB

SUBMITTED STATEMENT OF

JOHN J. MOTLEY III
DIRECTOR OF FEDERAL GOVERNMENTAL RELATIONS

for the

NATIONAL FEDERATION OF INDEPENDENT BUSINESS

Before: Senate Committee on Small Business, Subcommittee on Export Expansion

Subject: Trade Policy Reform Legislation

Date: May 15, 1987

Introduction

Mr. Chairman, I am pleased to submit this statement on behalf of the National Federation of Independent Business and the over half million members who belong to NFIB. We welcome this opportunity to comment on U.S. trade policy and small business.

I would like to compliment Chairman Sasser for holding these hearings and for stepping out to secure a place in the overall trade debate for small business issues.

With the U.S. trade deficit reaching record levels in recent years, fear has escalated that the United States is losing its competitive edge in markets throughout the world. As imports increasingly penetrate our domestic market, the fear has spread to encompass concern about the ability of American companies to compete at home as well. As small business leads the nation in job creation and produces nearly 40% of our gross national product, it is a sector many policymakers are turning to in the search for solutions to overcome the imbalances in the U.S. economy, both domestically and abroad.

Certainly, we can offer some answers to the problems, given the prominent role of small business in our economy. But the expectations as to what small business can do to offset our trade deficit cannot be too high. The main market for most small firms is, and will likely continue to be, their own back yard. Ultimately, the Congress must deal with problems of our domestic budget deficit and continue to bring the dollar down to more realistic levels vis-a-vis other currencies in order to overcome the imbalances with our trading partners.

The small business interest in trade issues is twofold. First, some firms are interested in opportunities for exporting and competing abroad. These potential exporters, however, need better education and service as to how to go about exporting. Second, small business owners are obviously concerned with their ability to compete in the domestic market, and therefore they are concerned with the impact of import policies on the domestic economic front.

This testimony will set forth suggestions for developing policy which can best enhance the role of small business in international trade. Specifically, the testimony will focus on export promotion and the need for better small business representation in trade matters. Particular emphasis will be placed on the role the Small Business Administration (SBA) can play in these matters. We will also present the views of small business on the overall approach of trade policy and its impact on the domestic market.

Specifically NFIB supports measures promoting reciprocity, not protectionism. The testimony also notes support for efforts to strengthen the protection of intellectual property rights.

Export Promotion

Efforts to increase exporting by small firms are not new. In 1980 Congress passed the Small Business Export Enhancement Act (P.L. 96-481), establishing a contract and grant program in the Department of Commerce for public and private entities which could counsel small firms on exporting. The Export Trading Company Act of 1982 (P.L. 97-290) allowed for the establishment of trading companies to handle all aspects of exporting for firms in a way which protects the participating financial and promotional parties from liabilities under the antitrust laws. The law allows for joint exporting ventures and for banking institutions to own a share of the venture. In 1984, the Foreign Sales Corporation (FSC) legislation, establishing tax incentives for exporters within the bounds of GATT, contained particular provisions to make FSCs workable for small firms. Other programs at the Department of Commerce, the ExIm Bank, and SBA have focused on promoting exporting by small businesses.

Despite these efforts, small firms continue to be largely uninterested in exporting. In February, 1985, NFIB's Research and Education Foundation published a study entitled "Small Business in Export Markets". The purpose of the study was to explore what contributions small business could make to bringing down U.S. trade deficits. The findings of the study include the following:

*Few small businesses export. Of those which do export, foreign sales usually account for less than 10% of total sales.

*Most small manufacturer/exporters engage in foreign trade infrequently. Nearly one in ten exporters have not made a foreign sale in three years.

*The initial export sale tends to be the product of an unsolicited order for a very small amount from a firm in an English speaking country. It is filled by the American firm very rapidly.

*The single most important motivation for a firm to enter the export market is an unsolicited order from abroad. Profit potential -- largely unrealized -- and the "the only way to expand" follow as motivating factors, though far behind unsolicited orders.

*The most important problem area for new exporters is obtaining market information. Foreign import restrictions are also cited frequently.

*The strong dollar is considered the greatest impediment to expanding export sales. Obtaining market information is also important.

*"Too much red tape," Better opportunities in USA," "Too complicated," "Too hard to find customers," and "Firm not big enough," are the principal reasons cited for not exporting.

*Government and private initiatives to increase small business exports should focus their efforts on: 1. firms with specific demographic characteristics, and 2. matching those firms, particularly for an initial export sale, with a foreign customer.

What more can be done to overcome these problems and encourage more small firms to export? Again, it must be acknowledged that some of the barriers to engaging more small firms in export activities will never be broken down. Small businesses are generally more comfortable in domestic markets, and the opportunities for growth in the domestic market are generally challenging enough. But, where programs exist to assist small business, there could be better targeting toward export promotion.

Perhaps the major problem for small firms that might be interested in exporting is a lack of knowldege of what help is currently available to them. Even if they are aware that assistance is available in the the trade area, locating the right program in the right agency to deal with their particular problem is enough to scare them away.

NFIB supports the concept of a Department of International Trade in order to consolidate the trade functions now scattered throughout a variety of federal agencies. The fifth recommendation of the 1986 White House Conference on Small Business calls for the creation of a cabinet-level department of international trade to "coordinate and focus on existing activities of federal agencies". The recommendation expressed the need to

"Coordinate the dissemination of information regarding business opportunities, export financing, education and training, licensing, trade missions, market-driven data bases, SIC code updates, and other essential functions of international trade." Consolidating our trade functions into a single department is certainly beyond the scope of this committee, but we mention this point to emphasize the need for better coordination between the existing export and trade assistance programs. There needs to be more focus on matching the potential exporter with the program which can answer his or her needs.

A useful function for the trade offices at the Small Business Administration would be to serve as a facilitator and liaison between the small business interested in exporting and the other agencies with services to offer. To the extent possible, there needs to be a "one stop shop" for small firms interested in exporting.

Data from the NFIB study on small business and exporting indicate that if presented with an opportunity to fill an order abroad, most firms (75%) will try to fill them. Over 62% of the surveyed firms reported their first export sale was the result of an unsolicited order. The study also indicates that certain types of firms are more likely to export than others. In general, regular exporters tend to be firms with 20 or more employees. The majority manufacture more technologically advanced products, and they tend to have larger management teams. Programs designed to stimulate small business exporting should then be targeted toward those firms with the best potential for becoming regular exporters. To get these firms started, they need to be matched directly with customers or intermediaries.

Provisions in the major trade bills (S. 490) call for setting up centralized data banks at the Department of Commmerce. S. 490 also focuses on strengthening the U.S. and Foreign Commercial Service by directing resources at our embassies abroad to promote U.S. business interests and to gather market information. This type of information could be disseminated through a central data center. SBA could help potential exporters by directing them to these resources.

Better incentives for exporters, and better education on what incentives exist, needs to be explored as well. Export trading companies are effective in that they offer the needed intermediary assistance through the private sector. The NFIB study shows that a majority of exporters have at one time or another engaged an export intermediary. Here again, though, there is a problem of matching the intermediaries with the potential exporters.

The tax incentives provided by the Foreign Sales Corporation (FSC) are worthwhile. We would encourage examination of the FSC to see if these tax incentives might be enhanced for small exporters. In addition, there needs to be a review of the "Small FSC" structure to determine if it can be simplified further to meet the needs of small firms. NFIB also supports using these types of incentives to encourage service exports as well as product exports. Again, SBA can serve a role by educating potential exporters on incentives like the FSC.

Another incentive proposed by the White House Conference on Small Business is the creation of an "Export SBIR". Such a program would operate along the lines of the Small Business Innovation and Research program by awarding grants to small firms with the potential for exporting and promoting growth in exports. As with the SBIR program, funds for the "Export SBIR" should be set aside from other existing programs. NFIB supports the concept of the "Export SBIR".

The Small Business Administration can play a more significant role in the trade area through enhancing its education services, serving as a facilitator between small firms and other agencies, and perhaps through promotion of incentives such as the "Export SBIR", but implementing these ideas must be looked at in the context of the SBA and its programs as a whole. As with any problem we face on a national scale, there is a tendency to want to just throw more money at the problem to make it go away. Particularly in the trade area, this will not work. As we have already noted, the need to bring down federal spending is an important element in solving our trade problems. We would thus encourage the Committee to look at the budgeting for new programs such as the "Export SBIR" in the context of allocating SBA's resources overall.

In addition to careful consideration of budget allocations, NFIB asks the Committee to think carefully about approaches to using SBA programs in getting information to potential exporters. NFIB has testified many times before this Committee on the role of the Small Business Development Centers (SBDCs) and the need for improving Management Assistance programs at SBA. If these programs are to be used in the export promotion efforts, we encourage you to focus on the most effective elements in these programs. A survey of NFIB members indicate they trust most the advice given them by retired business owners and private consultants. College professors and university business administration teachers are the least trusted sources of advice. Where possible, we urge you to use the private sector for information dissemination and technology transfer. A role for the SBA could again be that of facilitator: connecting the private consultant and the potential exporter.

Increased Small Business Representation in Trade Matters

Another major problem of small business in the trade area is lack of focus on the small business perspective on trade. NFIB has proposed increased representation of small business in trade matters through the establishment of a Small Business Advocate in the office of the U.S. Trade Representative (USTR) or by designating an Assistant Secretary for Small Business and Trade at Commerce. The White House Conference on Small Business recommendation on trade also called for increased representation of small business in trade matters.

The House trade bill, H.R. 3, addresses this concern to some extent. Where the bill establishes councils or committees to address trade issues, it specifies that representatives of small firms shall be included as members. For example, the bill establishes trade advisory committees which include small business representatives.

H.R. 3 also moves toward establishment of a Trade Advocate for Small Business. The bill, as introduced, established in the USTR's Office a Fair Trade Advocates Branch to assist "qualifying industries in obtaining remedies and benefits under the trade laws". The definition for "qualifying industry" includes any small business which, due to its size, does not have the resources or financial ability to obtain legal and technical assistance. Unfortunately, these provisions were pared down somewhat in the full Ways and Means Committee mark-up of the bill. The bill as passed would establish a Trade Remedy Assistance Office at the International Trade Commission (ITC) to provide information to the public and advice on remedies and petition procedures. Less focus is put on assistance to small business in this version.

Small business representation is not so specified in S. 490. We would encourage members of this committee to push for similar provisions in a Senate trade bill.

The advocacy role of SBA could also be used in this area. The legal and technical resources of small businesses are often limited. SBA could assist small firms in preparing for and participating in proceedings relating to trade laws. The advocate's office could provide assistance to small business with filling out forms, filing petitions, and post-petition proceedings. Of course, functions should be coordinated with the structure of the proposed Trade Assistance Office at ITC. But maybe a role for SBA in serving to offer assistance to small firms exclusively in trade remedy cases. Again, however, we reiterate the point that this would drain resources from the existing programs at SBA, including current functions within the Office of Advocacy itself.

NFIB also supports efforts to expedite procedures in trade injury cases where "critical circumstances" exist. Swift action can be particularly important in the case of small firms which operate close to the margin.

Impact of Trade Policy on the Domestic Market

Small business owner's interest in trade matters also stems from their concern over the impact of imports and overall trade policy on the domestic U.S. market. Their view in this area is primarily that of the free trader. How can we maintain the competitive stance of domestic producers against that of imports from abroad? The answer, in the view of members of NFIB, is to promote the abilities of small firms to compete by providing an atmosphere for business operations which is relatively free from government regulations and mandates. The answer, in the opinion of NFIB, is not to close our markets to competition from abroad, but to enhance the opportunities for American goods and services to compete with imports from abroad.

NFIB opposes rigid protectionist approaches to addressing our trade problems. Particular provisions in H.R. 3, the House-passed trade bill, raise concerns. These include the "Gephardt" provisions which are directed against countries running "excessive" and "unwarranted" trade surpluses with the U.S. The President must, under these provisions, attempt to negotiate defined surplus reductions. If negotiatons fail, the President must take further action to achieve reduction goals. This action includes suspension of trade agreement benefits and the assessment of duties and import restrictions as the President deems appropriate.

NFIB members have opposed proposals restricting imports of goods from abroad. A 1981 Mandate survey showed 68% opposed to limiting imports of foreign-made automobiles. A 1982 Mandate survey showed 57% opposed to domestic content proposals. In 1985 56% opposed voluntary import quotas on automobiles. The required percentage reduction of surpluses and the inflexible imposition of duties or quotas on imported goods are tools of retribution against our trading partners. The goals should be that of reciprocity, more open markets, and the lowering of trade barriers.

NFIB also objects to proposals to define as "unreasonable" practices that deny internationally-recognized worker rights (right of association, right to organize and bargain, prohibitions on forced labor, minimum employment age, minimum wages, hours of work, and occupational safety and health). These provisions essentially impose U.S. labor standards on foreign countries. Companies operating abroad should not be expected to abide by the standards set by the U.S. government.

Other provisions which have been proposed pose potential problems for small firms. These provisions would allow a U.S. manufacturer, producer, or wholesaler of a product who is injured economically by the dumping of imports to bring suit against a manufacturer, exporter, or importer "who knew or had reason to know that the merchandise was sold at less than fair market value." The injured party may recover actual damages. Under these provisions, the small retailer or wholesaler who sells imported goods could be open to suit. Although the knowledge standard may be difficult to prove, the opportunity for suit can only add to the litigation explosion in this country and to the resulting problems of liability insurance coverage.

Discretionary Executive Actions and Reciprocity

While NFIB opposes specific protectionist measures such as the Riegle-Gephardt proposal, certain moves to eliminate the discretion of the President to act in unfair trade cases can be supported. These provisions will promote reciprocity as the guiding force behind our trade policies. NFIB Mandate polls show small business owners supporting by 61% a policy of strict reciprocity in trade with foreign countries (1982 Mandate). Under the major Senate trade bill, S. 490 (sponsored by Finance Committee Chairman Lloyd Bentsen (D-TX)), the U.S. Trade

Representative (USTR) is given greater authority to initiate investigations into unfair trade practices (Sec. 301 cases), and upon certain findings, the President is required to attempt to negotiate elimination of the unfair trade practices.

S. 490 would also mandate the President to retaliate in the case of unfair trade practices. The extent to which the President was directed to act in the Gephardt provisions in H.R. 3 is of concern to NFIB for the reasons noted above. But mandating some action (with the President given discretion as to what that action will be) is consistent with a policy of reciprocity.

Provisions dealing with Section 201 cases to provide relief for industries injured by import dumping also limit the President's discretion to act. S. 490 would turn more authority over to the USTR and the International Trade Commission (ITC) to determine when action is necessary to address an injury. Under S. 490, if the ITC voted unanimously in favor of retaliatory action, the President would have to act unless he offered an alternative plan which was accepted by Congress. Review of alternatives would be on an expedited track.

In import injury cases, an industry or company petitioning for relief will often go through a long, time-consuming procedure to prove its case for relief. Once the ITC makes a determination that relief is warranted, the USTR must concur and then recommend to the President that action be taken. Often at this point, the State Department or other agencies involved in foreign affairs will come forward with political reasons unrelated to trade as to why action should not be taken. Giving the USTR greater authority and limiting the President's discretion in these cases will assure that industry and trade interests, and not unrelated political interests, govern whether action is taken in these cases. These provisions further promote the goal of strict reciprocity.

Protection of Intellectual Property Rights

NFIB supports provisions contained in the major trade bills to strengthen laws protecting intellectual property rights. We encourage the Small Business Committee to lend support to these proposals as well. These provisions would prevent imports of products which infringe on active patents, trademarks, and copyrights in the U.S. The bills would also make protection of intellectual property a topic for the GATT talks and would also call for negotiations on lowering market barriers, such as licensing and fees requirements, in other countries. Such provisions were supported in the White House Conference on Small Business recommendations. (See recommendation #5 and #15.)

Conclusion

NFIB once again would like to commend the Small Business Committee for playing an active role in the trade debate. In summary, we urge the Committee to focus its efforts in this debate on:

--Establishing a more defined role for SBA as a source for information on exporting and as a facilitator for linking potential small exporters with trade assistance programs;

--Promoting improved and new incentives for small business exporters;

--Providing better representation for small business in trade matters;

--Speaking for small business on the impact of our overall trade policy on the domestic market, particularly calling for reciprocity and not protectionist approaches, and calling for better protection of intellectual property rights.

The contribution which small business can make in the trade area will depend on policies which recognize the abilities of small firms as well as the limitations and special needs of small firms. We appreciate this opportunity to present the views of NFIB as to how those policies can best be framed.

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